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IMPACT OF IMPORTS ON SMALL BUSINESS
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JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS

AND THE

SUBCOMMITTEE ON TAX, ACCESS TO EQUITY CAPITAL AND BUSINESS OPPORTUNITIES

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

WASHINGTON, DC, NOVEMBER 19, 1985

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IMPACT OF IMPORTS ON SMALL BUSINESS

TUESDAY, NOVEMBER 19, 1985

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS, AND THE SUBCOMMITTEE ON TAX, ACCESS TO EQUITY CAPITAL AND BUSINESS OPPORTUNITIES, COMMITTEE ON SMALL BUSINESS,

Washington, DC.

The subcommittees met, pursuant to notice, at 10 a.m., in room 2359-A, Rayburn House Office Building, Hon. Ike Skelton (chairman of the Subcommittee on Export Opportunities and Special Small Business Problems) presiding.

OPENING STATEMENT OF CHAIRMAN SKELTON

Mr. SKELTON. The hearing will come to order.

I welcome all of you here today for a hearing on the impact of unfair trade practices and tax reform proposals on small manufacturers. This will be a joint hearing of the Export Subcommittee and the Tax Subcommittee of the Small Business Committee.

There are a number of reasons why this hearing on these topics is timely.

The growing trade deficit and the need for tax reform are two of the biggest issues Congress will face this term. One of the goals of this hearing is to expose and examine the current status of small businesses in the manufacturing industries.

All businesses, large and small, need to be concerned and are concerned about the unfair trade practices of foreign competitors which are draining our capital and costing us jobs.

The extent to which international trade directly affects the national economy has increased significantly over the past several decades. The ratio of U.S. trade—exports and imports combined—rose from 8.6 percent in 1970 to about 15 percent in 1984.

Similarly, the ratio of imports to domestically produced goods increased from 14.4 percent in 1970 to 31 percent in 1984. Current estimates indicate that about one out of eight U.S. jobs depends directly on U.S. exports.

These workers, too, make purchases and therefore, have an indirect effect on domestic economy. Economic activity affects and is strongly affected by international trade.

Our economy has numerous links to the rest of the world. The international markets for raw materials and products also controls the price of finished products.

As I believe we shall see today, unfair foreign competition can affect our lives and economy beyond the simple importation of con-

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sumer goods. Even products which have been "Made in the U.S.A." could have been produced by machines or cast in molds or cut by dies that are imported.

Our hearing today will concentrate on what the foreign intrusion is doing to our manufacturing capacity.

In the last 5 years there has been a dramatic reversal in the market positions of all the so-called metal working industries. In 1981, we exported $1.6 of metal-finished products for every $1 we imported.

By 1985 we are exporting only $0.86 for each $1 we import—a massive turnaround. In some industries, such as machining and tooling, import penetration has doubled, to over 50 percent of the market.

This is a very dangerous precedent. Our industrial capacity is more than merely an element of our economy, it is a vital part of our national security. In World War II, skilled machinists were exempted from the draft because they were more valuable to us on the production line than on the front line.

They created the tools and machines that built the arsenal for defense.

In December 1980, 5 short years ago, a special defense industrial base panel of the Armed Services Committee—chaired by our colleague Dick Ichord—made a finding, "the general condition of the defense industrial base has deteriorated and is in danger of further deterioration in future years." I believe we will see today that the deterioration they mentioned is, in fact, taking place.

It has already cost us American jobs. Our production capacity is already stagnated. We risk losing a generation of skilled and knowledgable machinists and more ominously we have put our national security on the line.

The small business community loves and supports free trade as long as it is fair trade. For our own sake, the time has come to insist on it.

We feel very fortunate to have seven experts in this area to share their knowledge with us. The problem is complex, and for that reason we have divided our witnesses into three panels, with each panel directing its attention to different aspects of the unfair trade practices and tax proposals on small manufacturers.

At this time I will call upon our colleague, Mr. Ireland, and I recognize also, as soon as Mr. Ireland is through, our cochairman of the hearing.

Mr. IRELAND. Let the cochairman proceed.

I have no opening statement.

Mr. SKELTON. Mr. Luken.

OPENING STATEMENT OF HON. THOMAS A. LUKEN, COCHAIRMAN

Mr. LUKEN. Thank you.

It is an honor to cochair this hearing with my good friend and colleague Ike Skelton.

This morning our two subcommittees have called a joint hearing to discuss and investigate the impact of unfair trade practices and tax reform proposals on small business, specifically small manufacturers.

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My Tax Subcommittee has held several hearings on the problems that tax reform could pose for small business. Representatives of various small business groups have testified that elimination of the investment tax credit could jeopardize many small manufacturers.

This provision, which is currently under discussion in Ways and Means markup, is vital to our Nation's basic industries and their ability to compete in the international marketplace. We must improve our long-term competitiveness or we will be subjugated to the role of a second-rate industrial power.

We must preserve our industrial base. The proposed lengthening of depreciation schedule was also cited by small manufacturers as being very harmful.

The history of the ITC, which has been suspended and reinstated several times, shows that employment and investments in equipment and machinery increased whenever it was in force.

America's manufacturers cannot absorb the additional burdens imposed by increased taxes through the loss of ITC on top of the albatross of the overvalued dollar they have had to carry. One does not have to look too far for an explanation for our $150 million trade deficit which is going up when imports are effectively subsidized by more than 30 percent.

Within the environment of an overvalued currency and threatened loss incentives, American industry has been victimized by unfair trade practices by our trading partners, last year this subcommittee held a hearing which revealed that our machine-tool industry had been targeted by the Japanese. This policy has led to a foreign penetration of our market at more than 40 percent this year.

We are disappointed that there has been little response, precious little, from the administration to the unfair practices that have been committed against our industries. There are several legislative efforts being undertaken to remedy this situation, and I hope that this hearing will provide some impetus to those endeavors.

Thank you.

We will recognize Mr. Skelton as the effective chairman, so we don't have any division of authority here.

Mr. SKELTON. Both of us have our gavels.

Mr. Ireland.

Mr. IRELAND. I am pleased we are having this hearing today. It is one of the key problems facing our committee. I look forward to hearing our panelists and, more than that, look forward to some positive action when we are finished.

Mr. SKELTON. The gentleman from Indiana, Mr. Hiler.

OPENING STATEMENT OF HON. JOHN HILER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. HILER. I thank the chairman for calling this hearing. I think it will be an instructive hearing. We have been engaged in a variety of hearings in our subcommittee concerning the President's proposals for tax reform.

Having watched the Ways and Means Committee for the last 8 months grapple with that issue, I am not sure that tax reform is going to occur in any shape.

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I suppose the work product remains to be seen. The issues the witnesses will testify to today in the areas of capital investment and capital investment incentives are areas that the Ways and Means Committee has not yet addressed, but will be addressing this week, so this hearing is very timely.

I thank both the chairmen for their wisdom in calling this hearing today.

Mr. SKELTON. If it is agreeable with the gentleman from Ohio, I will work on panel 1, if you would be kind enough on panel 2, and we can flip for panel 3, if there is no objection to that.

We will call the first panel—Mr. Phelps, Mr. Carr, and Mr. Eschenburg.

I would urge each of you to summarize your testimony.

I was remiss in not recognizing the other members of the panel.

Mrs. Meyers, my neighbor over in Kansas.

Mrs. MEYERS. I have no comments. I have a number of small businessmen and manufacturers, and I am pleased to hear from them.

Mr. SKELTON. Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman, I apologize for my late arrival.

I continue to hear the proponents of free trade. I think unfair trade is more of a problem to us.

I don't even know that free trade exists anymore other than in economics textbooks, and I look forward to this hearing.

Mr. OLIN. The machine tool industry and the tooling industry is a very, very vital and fundamental aspect of the strengthening of this Nation, always has been. I was a supplier to the machine tool industry, and I am well aware of the competitive pressures and some of the trade practices that make competing in that international market difficult.

I am looking forward to testimony of the gentlemen who are here today.

Mr. SKELTON. Again for the record we will ask, hopefully without objection, and I hear none, that each person testifying on each of the three panels, the testimony will be set forth fully in the record; and we urge each of you to summarize your testimony, so we will have more time for questions.

Mr. Phelps.

TESTIMONY OF BRUCE B. PHELPS, PRESIDENT, FULTON TOOL CO., INC., FULTON, NY

Mr. PHELPS. Mr. Chairman and members of both Small Business Subcommittees; my name is Bruce Phelps, I am the chairman of the National Tooling and Machining Association. And I am president and founder of the Fulton Tool Co., Inc. in Fulton, NY.

My colleagues and I have shortened our statements to less than 10 minutes each.

On behalf of small manufacturers everywhere, I wish to express our deep gratitude to all of you for holding this hearing to focus on the economic health of small manufacturers across our country.

As a representative of an industry which provides the tools, dies, molds, special machines, and precision-machined parts to virtually

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every other manufacturing industry in these United States, we are in a unique position to gauge the health of American industry.

Since the dawn of the industrial revolution, manufacturing in America has played a dominant role in the country's growth and evolution into the strongest economy in the history of mankind. It provided more and better goods for consumers at lower costs, provided highly paid skilled jobs that assured a healthy and growing middle class, and provided the industrial base which enabled the effective worldwide defense of democracy during two world wars.

In a world in which international trade was relatively free of manipulation by governments, and our economy relatiely free of mismanagement by Congress and the administration, American industry competed effectively with the best in the world. U.S. innovation and technology enabled the American manufacturers to overcome competitive foreign advantages such as lower wage rates, and in the process built a trade surplus which continued for decades.

Those days are over. They have been replaced by increased involvement in economic planning by competing countries, combined with the economic mismanagement of so many recent American Congresses and administrations.

Our trading partners found that by coordinating incentives and subsidies with protections for targeted domestic industries in their own markets, they could gain an increased market share both in their own and in export markets. U.S. administrations and U.S. Congresses did nothing in response. Due to an understandable reluctance to intervene in the private sector and the hope that the efforts of foreign governments would not be effective.

At the same time, U.S. Congresses and administrations became less and less fiscally responsible. They ran ever-growing deficits without recognizing the eventual impact of the high interest rates on the dollar's valuation and its impact of American industrial competitiveness.

What is most disturbing now is not that these oversights were made in the past, but that the present Congress and administration are either unable or unwilling to admit the problem or address it.

The clear fact is that the United States is rapidly on its way to deindustrialization. Of 139 manufacturing industries, 109 have lower employment levels than that of 5 years ago. We have moved from a trade surplus position to one of a $150 billion annual trade deficit in just a few years. We are a net debtor nation. It may be true that many low-paying jobs have been created in the retail, service, and wholesale sectors over the last several years, at the same time, however, over 1 million skilled middle-class jobs in the manufacturing sector have disappeared.

The implications of this economic recolonization is enormous. Our country is more and more the supplier of raw materials and a consumer of the finished goods. Socially we are gradually eroding the middle class. The lower paid service and retail jobs that are replacing factory jobs are not likely to enlarge our middle class.

The worker environment is such that many of those individuals will never progress to an economic level where they could enjoy many of the current advantages that the middle class Americans have today.

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As our industrial base erodes, so does this critical component of a balanced and healthy economy. Moreover, as that industrial base deteriorates, so does our country's ability to defend itself and its allies in times of national conflict. While our Nation's victory in two world wars was credited to American soldiers, sailors, and airmen, the victory was not theirs alone. It was also a victory for the industry of America which was so robust and healthy that it enabled our country to out manufacture enemies of democracy not by percentages, but in orders of magnitude.

American industry today is not defeated, but it is seriously injured. The response of the current Congress and the administration seems to be that American industry may be dying, but it is not dying fast enough. Both propose the elimination of badly needed investment incentives such as investment tax credits and accelerated depreciation. At the same time, competing nations such as Japan, are thinking of enacting an investment tax credit in order to preserve their ability to compete against expanding Pacific power economies.

American manufacturers do not need fewer incentives to invest in modern plants and equipment, they need more. The current tax incentives for investment are all that stands between small U.S. manufacturers and bankruptcy in many cases.

The verdict is also in on industrial targeting. Our trading partners have tried it and it works. Today, every American manufacturing industry is a sitting duck for any foreign country that makes a decision to provide whatever incentives and subsidies necessary to capture our market for their own industry.

It is time for both the Congress and the administration to stop ignoring the obvious. If we want to maintain a healthy U.S. industrial economy, we have to fight back. To fight back we must fight illegal foreign trade practices. We must also offset those which may be legal, but which led to unfair competitive advantage.

This does not have to be done through direct subsidies to American industry. It can be done by increasing investment incentives and returning fiscal responsibility to the economic management of our country. A balanced budget combined with the proper investment incentives will enable U.S. industry to return to its rightful position of world leadership in a very short amount of time.

In 1984, our company, Fulton Tool, did $262,000 with General Electric, Portsmouth, VA. We helped tool GE for the 1985 TV set.

This year we have not had any business, nor do we expect any. GE has gone offshore to purchase 1 million TV sets, Portsmouth is now a distributor of foreign products.

In 1980, our company did 2 million dollars' worth of business with the Xerox Co.—last year less than $250,000, this year less than $50,000. Xerox has gone offshore for the major part of their products.

Today Fulton Tool is doing over 75 percent military work. Our customers who serve the consumer market have very little work to job out in the United States.

Thank you very much.

Mr. SKELTON. Thank you very much.

Mr. Dick Carr, a gentleman and a good friend.

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TESTIMONY OF RICHARD CARR, CHAIRMAN OF THE BOARD, DETROIT TOOL ENGINEERING CO., LEBANON, MO

Mr. CARR. My name is Dick Carr, chairman of the board of the Detroit Tool Engineering Co. in Lebanon, MO, and chairman-elect of the National Tooling & Machining Association.

Mr. Phelps has provided an excellent overview of the economic status of U.S. manufacturing in general.

I would like to focus on small manufacturers and on our own industry in particular.

In one declining U.S. industry after another the pattern of decline is consistent. Large U.S. manufacturers leave for foreign shores where the economic climate is more hospitable and small U.S. manufacturers go out of business. In the former case, the pattern generally is a transitionary one. Large U.S. firms first begin importing raw materials, then the tooling provided by our industry, followed by components, until finally the entire operation is moved offshore. Smaller manufacturers, generally more closely tied to domestic suppliers for most of their required production needs, simply find themselves unable to compete and enter bankruptcy, or otherwise go out of business.

What is sad is that some larger manufacturers are leaving the country and many small manufactuers are going bankrupt. Business failures are an inevitable part of a free enterprise system. It is the competition in such a system which not only ensures the best prices and choices for consumers but also insures that uncompetitive firms will not survive.

The problem, as Mr. Phelps points out, is that the governments of our trading partners, as well as the U.S. Government have taken actions which ensure that a well managed U.S. manufacturer is at a significant disadvantage with respect to an equally well managed foreign manufacturer of the same product.

Mr. Skelton, the world knows that people in our State of Missouri have talent considering we have the two best teams in baseball. We also have talent in making shoes, but we have lost our shoe industry which was one of our great Missouri industries. If you are looking for a building in Missouri, you can find an empty shoe plant anywhere. Foreign competition has killed that industry and we don't want it to happen to ours. While the effect of foreign competition has impacted the tooling and machining industry for several years, it has only recently come to light that it is not necessarily direct competition in the goods and services our industry provides that has the most effect, but the indirect competition in that our customers are moving overseas or are having their products built overseas and our customer base has eroded substantially. While it is far from the largest industry to be affected by foreign competition, it is perhaps the most important for several reasons.

First of all, when you talk about an industrial base, it is this industry that makes an industrial base possible.

The tooling and machining industry literally provides the means of production to virtually every other manufacturing industry in the country, whether that industry produces products made of steel, plastic, leather, or any other material. Before any product can be mass produced, a manufacturer must buy tools, dies, molds,

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precision machined parts and special machines, which are at the heart of a modern manufacturing facility.

Virtually every U.S. manufacturing industry from automotive to aerospace, or shoes to appliances uses the services of the contract tooling and machining industry. We are an essential part of the defense industrial base, providing up to 70 percent of such products as critical jet engine parts, in most cases as subcontractors to large prime manufacturers.

Our most important asset is our people. Our journeymen toolmakers, diemakers, moldmakers, and precision machinists are among the most skilled—and among the best paid—blue-collar workers in the country. This is easy to understand when you consider that only a small percentage of the potential work force possesses the inherent mathematical understanding, mechanical aptitude, and problem solving ability required to be successful in this highly skilled profession. To be sure, modern technology has imposed new requirements such as the ability to program and operate CAD/CAM—computer aided design/computer aided manufacturing—equipment. What technology has not done is replace the need for the apprenticeship process, a 4- to 5-year commitment during which the apprentice learns the many special techniques and skills under the watchful eyes of the journeyman. The innate requirements of the job, as well as the long apprenticeship, accounts, in a large part, for the historic chronic shortage of these critical skills in this country.

NTMA has made a major commitment to reduce the shortage of skilled workers which existed until recent years. NTMA operates the Nation's largest—and oldest—skills training program. Over 17,000 have passed through the federally funded pre-employment program and into the industry during its 22-year history.

In addition, an estimated 120,000 have passed through formal apprenticeship programs in that same period.

A bit of history will impart a sharper focus on the importance of our industry. In the late 1930's the United States, still the preeminent manufacturing country in the world, was recovering from the Great Depression. Sensing that the military conflicts in Europe and Asia would eventually involve the United States, President Roosevelt directed the industrial might of this country to tool up for the production of war material.

Our industry was then near its zenith in terms of manpower and productive capacity. Overnight these innovative and responsive companies changed products. Automobile manufacturers became air craft manufacturers; and sewing machine manufacturers became gun manufacturers. Suppliers of tooling for automotive and commercial manufacturing became suppliers of tooling for armament manufacturing. Development of new nondefense products was halted immediately because our entire industry was essential and irreplaceable over the short term. As you said, Mr. Skelton, the administration quickly moved to exempt journeymen toolmakers, diemakers, and machinists from military service so as not to handicap our ability to serve the Nation's defense needs.

World War II was a triumph for America in many ways. It was a triumph for freedom. It was a triumph for the millions of brave Americans who gave their lives for their country.

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But it was a triumph for the U.S. manufacturing base as well. Never before in the history of the world had such a mobilization taken place. It is not an overstatement to say that our victory was just as much due to the fact that we outmanufactured Germany and Japan as the fact that we outfought them. Between 1941 and 1945, the United States built 231,000 airplanes—2½ times as many planes as Germany—and more than Japan and Germany combined. We also built 88,000 tanks, 1.7 million machineguns, 154,000 heavy trucks, 55,000 antitank weapons, and 25 million rounds of .30 caliber ammunition. This awesome mobilization was as much a factor in our victory as any other single factor. Our industry allowed the U.S. manufacturing industry to respond.

It is a performance that will not likely be repeated. The size of our industry, and therefore our capability to support such a mobilization, has shrunk significantly. Each day it becomes smaller.

A survey conducted of our members this summer revealed some alarming trends. Those responding companies had average 1984 annual sales of $2.7 million. Their estimation of contracts lost to foreign competitors was 10.9 percent of their 1983 sales, 16 percent of 1984 sales, and 28 percent of the sales for the first 6 months of this year.

Their customers represent most major U.S. industries, many of which are declining, and therefore buying less tooling anyway. The result is that our members are getting a declining share of a declining market.

Clearly, as Mr. Phelps pointed out, the United States is in the process of a rather rapid deindustrialization, almost to the point that Government has already thrown in the towel and considers us destined to become a service nation. At that point in time it will be necessary for us to repair each other's computers and sell each other insurance to create commerce in the United States. Hopefully, we have offered some good reasons why that should not be allowed to happen.

We have to remember that our competitive position was not naturally created due to world government intervention, and the situation will probably not correct it with the natural supply and demand laws. We want free trade, but more importantly, we want fair trade. We seem to be worried about the economic stability of our trading partners but are insensitive to our own economic stability.

We urge you to recognize that American industrial competitiveness is affected by tax and fiscal policy, as well as trade laws. We believe that some combination of changes should be made in any or all of these, which will restore U.S. manufacturers to an even footing in international competition.

I thank you very much.

Mr. SKELTON. We appreciate your being with us today.

Mr. Eschenburg, please.

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TESTIMONY OF R. DOUGLAS ESCHENBURG, CHAIRMAN, PUBLIC RELATIONS COMMITTEE, NATIONAL TOOLING & MACHINING ASSOCIATION, FORT WASHINGTON, MD

Mr. ESCHENBURG. Thank you, Mr. Chairman. My name is Doug Eschenburg, and I am chairman of the Public Relations Committee of the National Tooling & Machining Association.

My company, the Modern Tools Division of Libby-Owens-Ford Co. supplies molds to a variety of U.S. industries including: Computers, appliances, and electronics. In the last several years the U.S. mold building industry has suffered terribly as our customers either go offshore for their production or buy their molds from foreign sources.

A 1984 survey of 1,600 members of the Society of Plastic Engineers Mold Making and Mold Design Division revealed annual sales losses averaging $433,000 among 106 companies out of 145 responding firms. The losses were in industries that included agriculture, appliances, automotive, computers, consumer products, electronics, housewares, packaging, and the toy industries.

Several years ago, the National Tooling & Machining Association was able to convince over 60 Members of Congress to direct the International Trade Commission to investigate possible subsidies offered to Canadian mold builders by their government.

In the course of our preparations for the investigation, we discovered a Canadian Government publication containing a vast array of subsidies available to both their mold building and other industries.

While some of those subsidies were legal under GATT, many appeared illegal and most had no American counterparts which could help put us on an equal footing. Most interesting was the fact that neither the individuals responsible for Canadian affairs at the ITC, nor the Office of the U.S. Trade Representative were aware of the documents existence—both were provided copies—unfortunately, the ITC's hasty investigation was unable to reach a determination that subsidies exist.

We believe that this conclusion reflects both an incomplete investigation, as well as an apparent bias against American manufacturers by the commissioners. Indeed the attitude of current, as well as recent administrations, contrasts dramatically with the attitudes and actions of foreign governments. Those governments try to help their industries to grow, while ours seems intent on making sure U.S. industry is denied all tools which would enable us to remain competitive.

Let me recount for you some facts regarding our ability to compete internationally and some of the tax incentives and subsidies provided our foreign competitors by their governments, which are not available to U.S. firms.

If I could take out a loan in Japan to purchase new equipment, my interest rate would be 6.5 percent. The U.S. prime rate is about 10 percent, and I would probably have to pay several points above prime.

From 1978 to 1981, the currency of our major trading partners declined against the dollar by an average of 18 to 20 percent.

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As of 1981, the United States effective tax rate was 36 percent, compared to 24 percent in Japan.

During the recent worldwide recovery, equipment investments as a percentage of sales fell in the United States from 21.5 percent in 1978 to 6 percent in 1980. In 1981, after the creation of accelerated depreciation and the investment tax credit, investment climbed to 7.4 percent despite the lingering effects of the recession.

During that same period, 1978 to 1981, Great Britain's investments went from as high as 19.4 percent in 1979, to 6.2 percent in 1981. West Germany went for a low in 1979 of 4 percent to a high in 1980 of 7.3 percent before dropping back to 4.2 percent in 1981. Japan went for a low in 1979 of 5.7 percent to a high in 1981 of 6.7 percent. U.S. companies are investing more in equipment than our major trade competitors.

The average for investments during this period was 13.1 percent in the United States, 12.2 percent in Great Britain, 6.2 percent in Japan, and 5.1 percent in West Germany. This proves that the failure of U.S. firms to modernize with competitive equipment is not a factor in the trade imbalance.

Sales increases during 1978 to 1981 for members of the International Special Tooling Association averaged 82 percent. The increases ranged from 294 percent in Sweden to 4 percent in the United States. Great Britain increased by 26 percent, West Germany by 27 percent, and Japan by 51.53 percent.

Next to the United States, and at the end of the list, was Italy at 12 percent.

For toolmakers, comparative labor costs in ISTA countries for 1981 were, United States $10.40, West Germany $6.61, Great Britain $7.22, and Italy at $5.52.

According to a study conducted by the United States International Trade Commission, among the countries most involved in industrial targeting is Japan. Among home market protections provided to their domestic industries are: Restraints on foreign investment, tariffs, quotas, discriminatory government procurement, and other nontariff barriers. Among tax incentives provided are: Special depreciation rules, exemption for export earnings, tax deferral for export earnings, and grants. Antitrust exemptions include: Mergers, price fixing cartels, rationalization cartels, export cartels, joint research and development, and restrictions against competition. Science and technology assistance involves: Support for research and development, control over technology imports, requiring technology sharing as a condition for exporting to, or investing in the country—performance requirements—assistance in acquiring foreign technology, and training. Financial assistance ranges from: Loans at preferential terms, loan guarantees, export financing, preferential access to investment funds, preferential access to foreign exchange, and nationalization.

Taken together these advantages make the playing field very slanted, indeed, as compared to any assistance provided our industry by the U.S. Government.

In Great Britain, innovation funds can be used to finance up to 33.33 percent of installation costs for Flexible Machining Systems, robots and CAD/CAM. The British Government also finances up to 50 percent of the cost of feasibility studies.

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In Italy, the government provides a subsidy of 25 percent of the cost of buying or leasing advanced manufacturing equipment to small- and medium-size firms.

In Germany, grants of up to 40 percent of project's costs are available to implement CAD and related automation.

The Canadian Government publication, "Handbook of Grants and Subsidies of the Federal and Provincial Governments,"—which I have a copy here—lists the following subsidies:

Financial and management services from the Federal Business Development Banks, including loan guarantees and equity financing.

Loans and loan guarantees to foreign buyers of Canadian products, including capital equipment.

A comprehensive program of performance related insurance and guarantees to make Canadian exporters more competitive in bidding for contracts abroad.

Assistance for firms on selected projects involving the production of defense products.

Direct grants, loan guarantees, and repayable incentives are provided by the Canadian Government for the establishment, modernization, or expansion of manufacturing and other activities which increase or maintain employment, in designated regions of Canada.

The Canada Employment and Immigration Commission operates a number of training programs to assist employers and employees in industries requiring such assistance.

As if that weren't enough, the disparity in tariff rates in molds shipped between the United States and Canada was 6.9 percent in favor of the Canadians in 1984.

Several attachments to this testimony illustrate the degree of the problem.

A letter from the Metalion Corp. in Korea soliciting United States business refers to the government subsidized labor, as well as their exemption from United States import duty as a result of the Generalized System of Preferences.

Likewise, a letter from Integrator Industrial Ltd. in Taiwan refers to prices 50 percent below those of U.S. companies.

The impact on my area of the tooling industry is documented by a summary of a survey of 62 members of the American Mold Builders Association. The $438,340 dollar average loss per company represents about 10 U.S. jobs in an industry segment with an average company employment of 50 to 60 workers.

The impact on foreign competition of the U.S. fastener industry is documented by the International Trade Commission chart showing an increase from 21 percent to 56 percent of the foreign share of the U.S. market over the last 15 years.

The specific results of a survey by the American Metal Stamping Association shows the widespread impact of foreign competition on that industry.

We and others soon will be subcontracting molds to Taiwan, Hong Kong, Korea, or England. We find that it is necessary, while at the same time, it is sickening, but we feel we will have to do this to stay in business. This will drastically reduce the number of skilled people needed in the United States.

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The points I have described here are just a few examples of incentives or subsidies available in a few countries with whom we compete. Many more no doubt exist in many other countries, but small manufacturers, the associations which represent them, and indeed many large companies or associations just don't have the human or financial resources to dig out the facts and pursue trade remedies. Add to that the fact that many of the factors which put us at a disadvantage will not even be considered in deliberations by bodies such as the ITC, and it is easy to see how the small U.S. manufacturers will soon be an extinct species unless our Congress acts.

Our trading partners won't help, the ITC and the current administration haven't helped yet, so you are our last court of appeals.

We hope you will share this appeal with your colleagues.

Thank you very much.

[Mr. Eschenburg's prepared statement, with attachments, follows:]

PREPARED STATEMENT OF R. DOUGLAS ESCHENBURG, CHAIRMAN, PUBLIC RELATIONS COMMITTEE, NATIONAL TOOLING & MACHINING ASSOCIATION

Mr. Chairman and members of the Committee. My name is Doug Eschenburg. I'm the Chairman of the Public Relations Committee of the National Tooling and Machining Association (NTMA).

NTMA represents the tools, die, mold and precision machining industry. It is an industry comprised of 14,000 small businesses which build special tools, dies, jigs, fixtures, molds, and special machines. These companies form the foundation upon which the country's industrial ability rests. They service virtually every manufacturing industry in the country, from automotive to aerospace.

My company, The Modern Tools Division of Libbey-Owens-Ford, in Greensboro, North Carolina supplies molds to a variety of U.S. industries including computers, appliances and electronics. I became concerned about foreign competition when I began to see its impact in the U.S. mold building industry. In the last several years, our industry has suffered terribly as our customers have either gone offshore to produce their own molds or have purchased them from foreign sources.

NTMA surveyed its members regarding their problems with foreign companies in June of this year. The 57 responding companies reported average annual sales of $2,614,000.00 per company. The average out of business lost to foreign competition was $285,000 in 1983—10 percent of sales. In 1984, they lost an average of $422,000.00—16 percent of sales. Estimates for 1985 were $737,000.00—28 percent of sales. I think these figures justify our grave concerns about foreign competition.

What really disturbed me about this survey was a section asking the respondents to list exactly which contracts with which customer for what product they lost to which country. It then asked what their bid was and what the winning bid was. Our members are not just losing to Japan, Taiwan, and other Asian countries but we are also losing to competitors in England, Canada, Portugal, Switzerland and others.

What is most alarming is the difference between these bids, which were frequently the lowest domestic bid, and the winning foreign bid. The majority of U.S. companies had been underbid by 30, 50, 60, and even 70 percent. Figures like that tell me that the American tooling and machining industry has some serious problems.

Surveys done by other associations in the metalworking industry support SPE's and NTMA's surveys. A survey of 62 members of the American Mold Builders Association showed an average loss per company of $438,340.00, or about 10 jobs per shop. A survey conducted by the American Metal Stamping Association documents that one major U.S. manufacturer after another is buying from foreign sources or has gone offshore.

A 1984 survey of 1,600 members of the Society of Plastics Engineers (SPE) Mold Making and Mold Design Division revealed annual average sales of $433,000.00 were being lost by 106 companies out of the 145 responding firms. The losses were felt by companies serving the agriculture, appliances, automotive, computers, consumer products, electronics, housewares, packaging and the toy industries.

The impact of foreign competition on the U.S. fastener industry has been documented by the International Trade Commission (ITC). The Commission found that

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the foreign share of the U.S. market has increased from 21 percent to 56 percent in the last fifteen years.

Several years ago, the National Tooling and Machining Association was able to convince over 60 members of Congress to direct the ITC to investigate possible subsidies offered to Canadian mold builders by their government. In the course of our preparations for the investigation, we discovered a Canadian government publication containing a vast array of subsidies available to both their mold building and other industries.

While some of those subsidies were legal under GATT, many appeared illegal and most had no American counterparts which could help put us on an equal footing. Most interesting was the fact that neither the individuals responsible for Canadian affairs at the ITC, nor the Office of the U.S. Trade Representative were aware of the documents existence. (Both were provided copies.) Unfortunately, the ITC's hasty investigation failed to reach a determination that subsidies exist. We believe that this conclusion reflects both an incomplete investigation and an apparent desire to avoid facing the fact that American manufacturers do have grounds for complaining about foreign competition.

Indeed the attitude of current Administration, and its recent predecessors, contrast dramatically with the attitudes and actions of foreign governments. Those governments try to help their industries to grow while ours seems intent on making sure U.S. industry is denied all tools which would enable us to remain competitive.

Let me list for you some of the ways other countries try to help their manufacturers:

The Canadian Government publication, "Handbook of Grants and Subsidies of the Federal and Provincial Governments," lists the following subsidies:

1. financial and management services from the Federal Business Development Banks, including loan guarantees and equity financing;
2. small business loans for up to 80 percent of the cost of fixed or moveable equipment and 90 percent of the cost of construction;
3. loans and loan guarantees to foreign buyers of Canadian products, including capital equipment;
4. insurance of export transactions against various political and commercial risks of loss by the Export Development Corporation;
5. a comprehensive program of performance related insurance and guarantees to make Canadian exporters more competitive in bidding for contracts abroad;
6. assistance for firms on selected projects involving the production of defense products;
7. the Program for Export Market Development, which encourages Canadian suppliers to enter new export markets or undertake additional export development activities;
8. direct grants, loan guarantees and repayable incentives are provided by the Canadian Government for the establishment, modernization, or expansion of manufacturing and other activities which increase or maintain employment in designated regions of Canada;
9. the Canada Employment and Immigration Commission operates a number of training programs to assist employers and employees in industries requiring such assistance;
10. the Department of Regional and Economic Expansion (DREE) provides incentives to manufacturing or processing operations in designated slow-growth areas of Canada.
11. As if that weren't enough, the disparity in tariff rates in molds shipped between the U.S. and Canada was 6.9 percent in favor of the Canadians in 1984.

In Great Britain, innovation funds can be used to finance up to 33.33 percent of installation costs for Flexible Manufacturing Systems and robots. The British government also finances up to 50 percent of the cost of feasibility studies.

In Italy, the government provides a subsidy of 25 percent of the cost of buying or leasing advanced manufacturing equipment to small and medium size firms.

In Germany, grants of up to 40 percent of project costs are available for the implementation of CAD and related automation.

A letter, attached to this testimony, from the Metalion Corporation in Korea soliciting U.S. business refers to the government subsidized labor, as well as their exemption from U.S. import duty as a result of the Generalized System of Preferences.

Likewise, a letter from Integrator Industrial Ltd. in Taiwan refers to prices 50 percent below those of U.S. companies.

According to a study conducted by the U.S. International Trade Commission, one of the countries most involved in industrial targeting is Japan. Among home market protections provided their domestic industries are: restraints on foreign investment,

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tariffs, quotas, discriminatory government procurement, and other non-tariff barriers. Among tax incentives provided are: special depreciation rules, exemption for export earnings, tax deferral for export earnings, and grants. Antitrust exemptions include: mergers, price fixing cartels, rationalization cartels, export cartels, joint research and development, and restrictions against competition. Science and technology assistance involves: support for research and development, control over technology imports, requiring technology sharing as a condition for exporting to or investing in the country (performance requirements), assistance in acquiring foreign technology, and training. Financial assistance ranges from: loans at preferential terms, loan guarantees, export financing, preferential access to investment funds, preferential access to foreign exchange, and nationalization.

In addition to all of this, a recent phone call to the Japanese Embassy revealed that the interest on an average business loan in that country is 6.5 percent, considerably lower than the several points above the current U.S. prime of 9.5 percent. A small business would have to pay 1-3 points above prime to borrow here. Furthermore, as of 1981, the U.S. effective corporate tax rate was 36 percent, compared to 24 percent in Japan.

Taken together these advantages make the playing field very slanted indeed as compared to any assistance provided our industry by the U.S. government. But they do not tell the whole story.

From 1978 to 1981, the currency of our major trading partners declined against the dollar by an average of 18 percent to 20 percent, making our exports more expensive compared to their domestic goods and their imports cheaper compared to our domestic goods. In such a situation, the customer who buys the cheaper foreign product is not the villain. He is simply doing what we all do with our personal purchases, looking for the best buy.

The value of the dollar against other currencies seriously impacts on the sales made by our companies. During the period of 1978 to 1981, sales increases for members of the International Special Tooling and Machining Association (ISTA) averaged 82 percent. The increase for Swedish companies averaged 294 percent, for Japanese the average increase was 51.53 percent, for West Germany it was 27 percent, for British it was 26 percent. Italy was next to the bottom at 12 percent. The United States? We were at the bottom at 4 percent.

Whenever international trade is discussed, the difference in labor costs is mentioned. A survey just released by ISTA shows that comparative labor costs for tool and die makers at $10.19 to $12.83 in the U.S., $4.67 to $6.39 in West Germany, and $5.29 to $5.96 in Great Britain. While comparable figures are not available for workers in Japan because of the difference in computing salaries, it is estimated that the average toolmakers there earn between $7.90 to $8.20 an hour.

While U.S. labor costs are high, they are not so high as to be the explanation for why American companies are being underbid by 40 percent, 50 percent, and 70 percent. Indeed our industry, and other U.S. industries as well, have historically been able to compete effectively with lower wage foreign countries, and we can again. What we can't compete with are all of these other advantages thrown in as well.

Another point that is often made by these who do not want to believe that U.S. manufacturers have a cause for for complaint is that we do not train our employees so they are not able to move beyond their current, threatened, position and remain competitive in the world's economy.

At the core of the tooling and machining industry are the most highly skilled workers in the country. A journeyman must complete a four year apprenticeship requiring 576 hours in the classroom and 8,000 hours of on-the-job training. Despite the fact that it costs the shop owner between $40,000 to $60,000 per worker just to get the employee to the journeyman status, this cost is borne because we so badly need these trained employees.

The training does not always start with the apprenticeship. For over 18 years, NTMA has conducted a pre-training program for these who are thinking of becoming apprentices. Nearly 16,000 people have started their careers with this program.

Also, training does not stop once a person becomes a journeyman. It can't. To stay in business, a shop owner must keep up with the latest in computer assisted designing and production. This means his employees must keep up as well. Through courses at local schools, training manuals provided by NTMA, and in-shop sessions, the employee is constantly being trained.

The accusation that we do not invest enough in new equipment doesn't stand up to the facts either. During the recent world-wide recession, equipment investments as a percentage of sales did fall in the U.S. from 21.5 percent in 1978, to 6.0 percent in 1980. In 1981, after the creation of accelerated depreciation and the investment tax credit, investment climbed to 7.4 percent despite the lingering effects of the re-

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cession. During that same period, 1978 to 1981, Great Britain's investment went from as high as 19.4 percent in 1979, to 6.2 percent in 1981. West Germany went from a low in 1979 of 4.0 percent, to a high in 1980 of 7.3 percent, before dropping back to 4.2 percent in 1981. Japan went from a low in 1979 of 5.7 percent, to a high in 1981 of 6.7 percent. U.S. companies are investing more in equipment than our major trade competitors. The average for investments during this period was 13.1 percent in the U.S., 12.2 percent in Great Britain, 6.2 percent in Japan, and 5.1 percent in West Germany. This proves that the failure of U.S. firms in our industry to modernize with competitive equipment is not a factor in the trade imbalance. It also demonstrates the continued need for an investment tax credit and accelerated depreciation. Unfortunately, the House Ways and Means Committee appears poised to repeal both.

The points I have made today, I believe, illustrate that the American manufacturer of molds, tooling, dies, jigs, and special tools do have problems with foreign competition; problems that are not solely of our own making. The strength of the dollar, high interest rates, and the assistance foreign companies receive from their governments are factors we can not control or even impact.

I have listed just a few examples of incentives or subsidies available in a few countries with whom we compete. Many more no doubt exist in many other countries but small manufacturers, the associations which represent them, and indeed many large companies or associations just don't have the human or financial resources to dig out the facts and pursue trade remedies. Add to that the fact that many of the factors which put us at a disavantage will not even be considered in deliberations by bodies such as the ITC, and it is easy to see how the small U.S. manufacturers will soon be an extinct species unless our Congress acts.

Our trading partners won't help, the ITC and the current Administration haven't helped yet, so you are our last court of appeals.

We hope you'll share this appeal with your colleagues.

Thank you.

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MTC THE METALIAN CORPORATION

TEL:717-5884/5

MANUFACTURER AND EXPORTER
KWANG WHA MOON P. O. BOX 752
SEOUL, KOREA

INDUSTRIAL METAL PARTS

Jan. 17, 1985

Dear Sir :

We got your name thru the courtesy of "AMERICAN METAL STAMPING ASSOCIATION" and may we introduce ourselves as a leading Manufacturer and Exporter of Industrial Metal Parts, especially, the Metal Stamped Products of all Metals :

1. GENERAL STAMPINGS
2. DEEP DRAWN STAMPINGS
3. PROGRESSIVE DIE STAMPINGS
4. SUB-ASSEMBLING

Would you please, let us have an opportunity to quote on the above items by sending us the Drawings, Samples with Requiring Order Quantity and we will quote you by return. When you purchasing the Metal Stamping Products from the Korea, you could have the Quality Products at the very Competitive Price by following reason.

1. MATERIAL COST
   We, Korea is the World Rapid Growing Steel Producing country therefore we could have Standard Material and the Competitive Price.

2. LESS COST-TIME ON MAKING TOOLING
   We could make all the Mold & Tooling at the substantially lower price than your present cost and we could make it relatively short period of time (Mostly 3-5 weeks).

3. LESS COST ON MANUFACTURING
   By our government Industrial-Driving-Policy, having well Educated-Experienced Labours at substantially lower labour charges than your present cost.

4. NO-IMPORT DUTY
   Almost all of Metal Stamped Products are under the GSP (Generalized System for Preference) therefore you will pay No-Import Duty on these items.

Thank you very much for your kind cooperation and hoping to able to receive your Inquiries in near future.

Very truly yours,

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Integrator Industrial Ltd.

8F-2, 100 Ho Ping E. Rd., Sec. 2, Taipei, Taiwan, R. O. C. Tel: (02) 7005697 • Telex: 23302 OLMAK

Attn: Mr, President

Our Ref: FC85/961
Sept. 10, 1985

Dear Sir,

Re: 50% SAVING ON YOUR TOOLING COST

You will be suprised to experience what many American firms had experienced by making tools and dies in Taiwan, even parts and components. We gurantee your satisfaction will not only to cheap price, but also good qaulity and prompt delivery.

As a buying agent, we offer complete and efficient service both on technical and commercial sides, However, the only thing you have to do is to send us your blueprints or samples, and then you can easily evaluate what we have done for you.

We are always ready to serve you, so please feel free to contact us for anything we can do for you.

Best Regards,

Sincerely Yours

David Young

David Young
General Manager

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American Mold Builders Association

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OLAV L. BRADLEY
JOHN HOLLAND
HARVEY LUMBNESS

July 10, 1985

Dear AMBA Member,

This summary is of the survey made of the AMBA members regarding foreign mold making competition. Co-ordination of this summary was handled by Glenn Beall of Glenn Beall/Engineering, an AMBA member and also Chairman of the Intersociety Liaison Committee, SPE Mold Making and Mold Design Division.

Of the 62 replies, 44 showed losses to foreign mold making competition. The minimum loss was $20,000 and the maximum loss was $5,000,000. The Electronics market shows the greatest loss in monies to foreign mold making competition.

The summary lists the categories the mold makers felt they lost business in. For example: Electronics, Automotive, etc.

The columns on page two represent total monies lost by each representative company. Totals are listed when there was more than one company represented in a category. The most important market is shown first - followed by secondary markets, as reported by each company. These categories are also grouped in alphabetical order.

On page three there is a listing of the companies in the order of their gross billings.

The companies surveyed provided the following results: one company noted that Canadian competition is the biggest problem for them; eleven stated that they lost no money due to foreign mold making competition; five replied that the amount of money lost is unknown; one lost "very little"; and one shop is so busy it could not handle any more work anyway.

The conclusion of this survey is that a total of $19,287,000 in estimated gross billings was lost due to foreign mold making competition.

Also enclosed is an article written by Glenn Beall entitled "SPE, AMBA and SPI Fight Back" from the April, 1985, Mold Making & Mold Design Division of SPE's Newsletter. Thank you Glenn for all your efforts.

Jim Jones
President

jb
attachments

SERVING THE PLASTIC & DIE CAST INDUSTRY

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AMBA SUMMARY OF FOREIGN MOLD MAKING COMPETITION SURVEY

Categories of Business Loss:		Gross Billings Lost	
Automotive	1)	$ 500,000	
Automotive, Appliance, Industrial	1)	750,000	
Automotive, Electronic	1)	200,000	
	2)	250,000	Automotive, Electronic
	3)	1,500,000	Total $ 1,950,000
Automotive, Housewares, Electronics	1)	300,000	
Automotive, Housewares, Housings	1)	400,000	
Automotive, Housewares, Toys	1)	800,000	
Automotive, Toys	1)	250,000	
Electronics	1)	40,000	
	2)	40,000	
	3)	100,000	
	4)	100,000	
	5)	175,000	
	6)	325,000	Electronics
	7)	3,500,000	Total $ 4,280,000
Electronics, Automotive	1)	75,000	Electronics, Automotive
	2)	200,000	Total $ 275,000
Electronics, Automotive, Housewares	1)	50,000	Electronics, Automotive, Hswrs.
	2)	500,000	Total $ 550,000
Electronics, Communications	1)	200,000	
Electronics, Computers	1)	150,000	
Electronics, Computers, Consumer Goods	1)	800,000	
Electronics, Housewares	1)	200,000	
	2)	250,000	Electronics, Housewares
	3)	300,000	Total $ 750,000
Electronics, Packaging	1)	5,000,000	
Electronics, Toys	1)	75,000	Electronics, Toys
	2)	150,000	Total $ 225,000
Housewares	1)	20,000	
	2)	50,000	
	3)	30,000	Housewares
	4)	60,000	Total $ 180,000
Housewares, Packaging	1)	40,000	
Motor Housings	1)	67,000	
Packaging, Housewares	1)	85,000	
Recreational, Agriculture, Automotive	1)	800,000	
Shoe Industry	1)	150,000	
Toys	1)	50,000	
	2)	50,000	
	3)	60,000	
	4)	125,000	
	5)	200,000	Toys
	6)	300,000	Total $ 785,000
Totals		$ 19,287,000	

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SUMMARY OF AMBA FOREIGN MOLD MAKING COMPETITION SURVEY

Gross Billings Reported	How many Answered	How many Lost Money	Minimum	Maximum	Total	Average
Less than $1,000,000	32	22	$ 40,000	$125,000	$3,022,000	$137,363
1,000,000 - 2,000,000	18	13	20,000	800,000	2,965,000	228,076
2,000,000 - 5,000,000	9	7	50,000	1,500,000	4,800,000	685,714
5,000,000 - 10,000,000	2	1	- 3,500,000	-	3,500,000	3,500,000
10,000,000 - and over	1	1	- 5,000,000	-	5,000,000	5,000,000
	62	44			$19,287,000	

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SPE, AMBA and SPI Fight Back

By Glenn L. Beall, Chairman, Intersociety Liaison Committee
SPE Mold Making and Mold Design Division

There isn't a mold making company in this country that isn't concerned about the increasing number of tools that are being imported into the United States.

Last year the ITC (International Trade Commission) was requested to study the issue by the Congress. A report has been released, but no action on it has yet occurred. The NTMA (National Tooling and Machining Association) and SPI (Society of the Plastics Industry) have been in the forefront of addressing the issue. SPI with its Washington office, federal contacts, professional lobbyists and political action groups is well structured to spearhead this activity. However, SPI has been working alone. That situation has now changed.

Starting in the spring of 1984, the Society of Plastics Engineers (SPE) and the American Mold Builders Association (AMBA) joined the battle to support SPI's efforts to combat unfair competition from foreign mold makers.

During the summer of 1984, the SPE and the AMBA surveyed their respective memberships. The results of these two independent but identical surveys can be summarized as follows:

—The SPE survey covered 1,600 captive as well as custom mold making professionals. 145 or 9% of the questionnaires were returned.

—The AMBA mailing went to 180 custom mold making companies. 62 questionnaires were returned, representing a response of 34½%.

—Combining the two surveys, there was an 11½% response, which has to be considered very good for this sort of thing.

—The survey questionnaire was broken down by company size and the number of responses from each size was 86 (less than one million), 60 (one to two million), 29 (two to five million), 11 (five to ten million), and 7 (over ten million) dollars in annual net billings. 14 responses failed to indicate the size of their companies.

—On an average basis, those companies in the over ten million dollar category lost an average of $895,000 per company. The five to ten million dollar group lost $910,000. The two to five million dollar companies lost $552,000. The one to two million dollar group lost $355,000. And the less than one million dollar category had an average per company loss of $213,600.

—Estimated losses ranged from as little as $2,000 to a maximum of $5,000,000. There was no clear pattern; however, on the basis of averaged values, the data tended to indicate that the smaller and supposedly less well-equipped companies lost the most business, especially on a percentage basis.

—Among the 207 responses from the two surveys, there were 52 (or 25%) who indicated that they only built molds for their own internal use (captive), that the survey didn't apply to them, or that they weren't aware that they had lost work to foreign competition.

—155 (or 75%) of those responding had lost work to off-shore competitors. Their combined estimated losses totaled $63,670,000 or an average of $410,770 per company.

—Making the dangerous assumption that the replies from this limited survey are typical, we could speculate and say that at least half of the 75% of the 4,800 + custom mold making companies in the U.S. are losing an average of $410,770 each, or a total of $739,386,000 per year to foreign competition.

This survey specifically excluded Canada as that was the type of data required to be compatible with the information that SPI already had available. It was interesting to note, however, that many of the respondents indicated that their major competition came from Canada and not from the rest of the world. Based on these unsolicited comments we can assume that the total dollar value of imported molds would be much greater if Canada had been included in the survey.

Brian Mulroney, Canada's new Prime Minister, spoke before a group of 1,450 U.S. executives in December. He seems to have a more realistic approach to some of these trade problems. Talks are now underway on the federal level and who knows, we may get lucky.

The survey also asked for the types of markets in which business was lost to foreign mold makers. On a dollar volume basis, the largest losses were in electronics; followed by automotive; housewares, including appliances and toys; medical devices; and packaging, in that order.

This survey represents the beginning of a joint effort on the part of AMBA, NTMA, SPE and SPI to bring the foreign tool making competition situation to the attention of the International Trade Commission. Tool making is vital to the well-being of a strong self-sufficient America. But we are small in numbers. We are all, every single last one of us, going to have to join together and scream very loud and in unison if our voices are to be heard over the din of the big business interests such as automotive, steel, chemicals and electronics. Words like "balance of payment," "strong dollar" and "foreign trade deficit" are being spoken with increasing frequency in Washington, DC. Hopefully, the time is approaching for some positive action in these areas.

You will be hearing more about this joint effort over the next few months. In the meantime, let us all start collecting the type of information that will be required to gain the attention of our numbers—conscious elected officials in Washington. In other words, get your weapons in order and be ready to do battle when the call comes.

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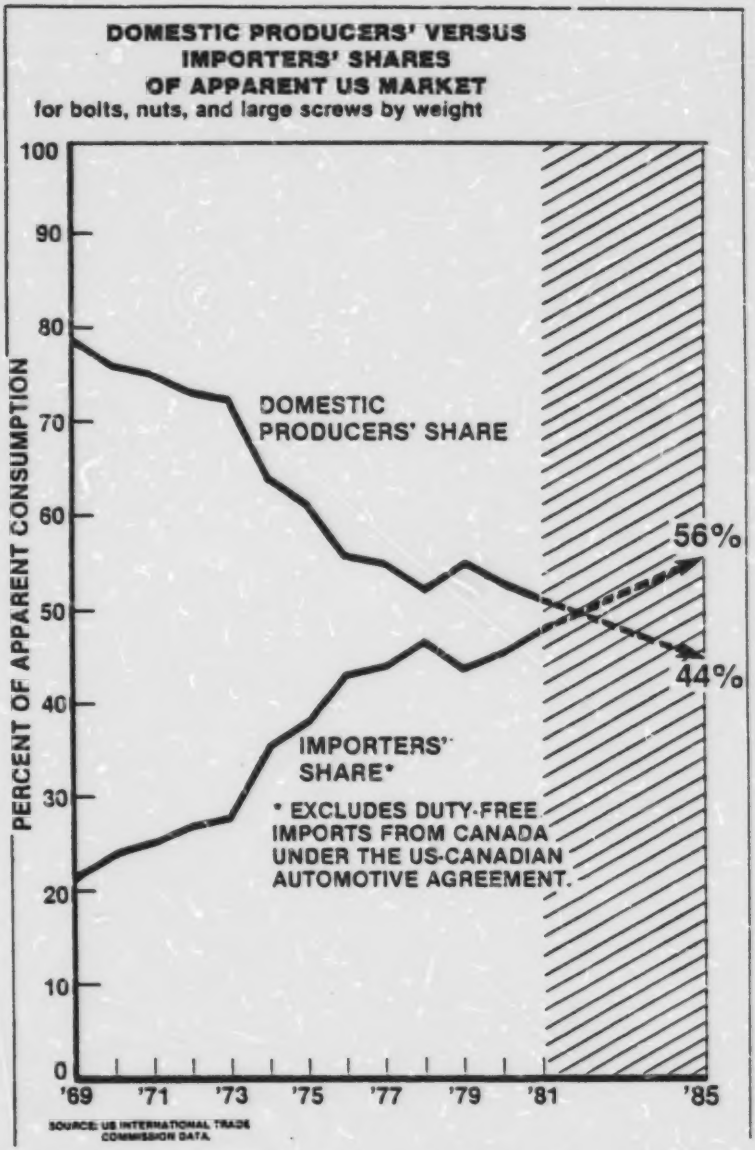

Domestic producers' and importers' shares of apparent US fastener market for bolts, large screws, and nuts by weight:

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RESULTS OF AMSA SURVEY ON FOREIGN BUSINESS PRACTICES

1. Are you aware of any domestic firms moving metal stamping, metal fabricating or metal spinning production to off-shore locations? If yes, please provide any specific information you may have.

RESPONSES:

1. Metal fabricating is not going off-shore in itself but it is going in sub-assemblies and assemblies and whole products in an attempt to lower cost and remain competitive. If we can reverse the trend of the rising dollar and keep inflation in check we will again become competitive on a world basis.

2. Yes. The electronics industry is moving off-shore on many items.

3. Schwinn is now making whole bicycles in Japan.

4. Bendix.

5. American Safety Products, Division ASP International, Inc., Cleveland, Tennessee is known to purchase Fire Extinguisher bottles from Germany, brackets from Germany or England and have had dies made in Taiwan. Last time I talked to them they indicated they would have the handles for the Fire Extinguishers made there (Stampings). They have an assembly and bottling line in Cleveland. Wally Schirra may be on their B of Ds.

6. Yes. Customers are buying at 2/3 the cost of U.S. made goods and to compete the manufacturer has developed manufacturing capabilities in Taiwan.

7. Yes. Seem to be inferior to U.S. parts.

8. Caterpillar Tractor is purchasing flame cut shapes and many welded assemblies. These are large welded assemblies such as platforms. Many of the completely assembled tractors are being transferred to Brazil, Mexico, France, Scotland and England. In time Caterpillar may be produced entirely off-shore.

9. Digital - Sourcing in Puerto Rico, Europe & Canada. Wang.

10. Yes. General Electric, Portsmouth, VA. Data Terminal, Maynard, MA. Apple Computer, Dallas, TX.

11. Borg-Warner (Borg & Beck Div.), 5960 W. 66th Street, Bedford Park, Illinois, moved. Manufacturing is done in Brazil.

12. J.L. Clark Manufacturing, 6131 W. 74th Street, Bedford Park, Illinois. Stamping is done overseas.

13. Trio Metal Stamping (AMSA Member) to Mexico.

14. Yes. Spun patio table tops to Taiwan, formed brass cups to mixing bowls to Korea. SS cups to Japan. (our customers present and past.)

15. IBM Buying in Orient; Zerox buying in Netherlands.

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2. Are you aware of domestic firms, (perhaps your customers) purchasing significant quantities of stampings, fabrications or spinnings from off-shore sources? If yes, please provide specifics.

RESPONSES:

1. Bendix (Allied) is closing it's South Bend, Indiana, plant and we understand will source one-third of the work, about $20,000,000 in Japan and Korea.

2. Only one customer has admitted they had to purchase from a domestic producer for a particular customer of theirs. Otherwise, they apparently are buying all foreign.

3. Yes. Numerous customers purchase a portion of their merchandise - anywhere from 10 to 40% as close as I can determine.

4. Yes. C & K Industries, Jamesbury Corp. and Bose Corp. C & K and Jamesbury are buying ball valve handles overseas and Bose is buying radio speaker brackets overseas.

5. Not components, however WANG Digital & IBM among others on our customer list are now buying assemblies overseas in the orient primarily that contain stampings and metal Fab. components.

6. Yes.

7. Surfglas (sail boats) is now buying parts we made from Taiwan.

8. Bendix.

9. Yes. Plumbing fixtures, tubing and stampings.

10. At present I am not aware of any of our customers purchasing stampings off-shore.

11. Other than Caterpillar is Clark Equipment.

12. Yes. Longtime customer making novelty items now purchasing 2/3,000,000 pcs. off-shore.

13. Most major fastener distributors stay stainless. Troy, Bell, All Metal Specialist, Reynolds, Kanebridge, Allied, Atlas, Action and many others.

14. Yes. Sears log splitter guard covers are purchased by the "container" at cost below domestic national cost!

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15. Many are presently investigating Motorola, Ft. Worth, Texas.

16. G.T.E. How much is not known.

17. Yes. We believe that one of our direct competitors. Excelsior Hardware of Stamford, CT, is purchasing metal stampings from the Far East (Taiwan) that are direct imitations of items in our standard product line.

18. Domestic Customers of ours are purchasing Molybdenum stampings in significant volume from the European market for 15% to 25% less than we can make these stampings. One significant factor is the strong U.S. dollar.

19. Tandon Electronics; Seagate Electronics; Matel Electronics; and Data Products.

20. Some of our customers say they are purchasing "some" foreign stampings, but no details available. I have been told that one company in the greater Milwaukee area is buying proprietary stampings abroad formerly made in-plant.

21. Xerox Corporation has moved their purchasing of metal formed products to Holland. One of our customers had us tool up a product and deliver one run. In the interim they were tooling up in Korea, unknown to us. They used us as an emergency only. Obviously the quantities are now insignificant.

22. IBM buying in Orient; Xerox buying in Netherlands.

3. Are you aware of foreign-controlled companies in the U.S. (perhaps customers of yours) who appear to be restricting purchases of components, tooling or equipment to their own nation? If so, please provide specifics.

RESPONSES:

1. Not specific.

2. Quasar.

3. None.

4. NEC.

5. Siemans Allis - New Orleans buys PC board and AC devices from their parent company in Germany - Siemans Co.

6. North American Phillips, on certain products - also on some new items.

7. Uniden, Garden Grove, CA. Japanese owned.

8. Only hear say -- no firsthand info.

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4. Are you aware of questionable pricing or other practices of foreign-controlled companies which are solely designed to increase U.S. market share? If so, please provide specifics.

RESPONSES:

1. Nothing other than what I read about.

2. Not of the companies, only the difference in domestic law governing taxes mandated on payrolls in far east countries versus U.S. mandated payroll cost to engage in interstate commerce, and the fact that by treaty we allow these unencumbered hours to complete subject only to GATT tariffs!

3. Taiwan has solicited U.S. to build dies and/or stampings which they say they can send to us duty free!

4. No, but they sure have some low prices, which I think are the products of costs - not just unfair pricing or other policies.

5. Not directly, but some prices we obtain indicate this is happening.

6. Possibly. We are experiencing a competition from European manufacturers who are publishing price lists for hardware that duplicates items in our product line. In many cases the prices quoted are significantly below our standard list prices. Althcugh these prices are in many cases lower than ours, we can not be sure that this competitor is dumping. One thing we are sure of he is pulling all the stops to gain a significant market share in the U.S.

7. Yes.

8. We manufacture a line of doll display devices. Taiwan seems to have targeted metal toys etc. at prices well below ours, having copied our designs precisely.

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5. Other comments which may help the Board assess this situation:

RESPONSES:

1. Not familiar with conditions.

2. Let's stop taxing U.S. labor hours to fund needed U.S. social cost, let's tax the labor content at the point of sale in the U.S. regardless of point of origin. All products would then contribute to social security, unemployment, insurance, etc!

3. Will our worker be able to collect unemployment checks from Japan or Taiwan? Let's hope so!

4. Brazil is in trouble. U.S. corporations are told by big banks to help them out.

5. We will obviously slowly dissolve our domestic manufacturing base as these plants are closed down by customers buying off-shore, or manufacturers themselves going off-shore.

6. We do not know what the impact of the Chrysler - Korea arrangement will be.

7. Everyday we find that we are asked to be competitive with Canada with all our customer list. We have lost orders to Canada due to dollar strength and exchange rate. Actual labor dollars are higher but exchange rate make Canada less cost. We cannot purchase raw material cheaper in Canada, but we can purchase material with 1st operation at less price and no duty charge.

8. I believe a trend is starting and will continue to grow. Companies are re-engineering their products so as to have foreign manufacturers incorporate the metal portion with the electrical device (power supplies - chassis - manufactured brackets).

9. We are beginning to see some penetration of our traditional auto suspension component market by foreign-owned operations in this country.

10. The G.M./Toyota plant in Fremont, California building the Chevy Nova receives 1450 parts from 100 Japanese supplies and 400 from 74 U.S. suppliers. Most of the major assemblies come from Japan. With the U.S. left with glass, tires, radios and wiring harnesses (the relatively minor items.)

11. Equally as devastating as the off-shore sourcing of TV's, Auto's, VCR's, Telephones, etc., is the miniaturization of electronic components (circuit boards for example), which allow the use of plastics in place of metal chassis. The general substituting of plastics for metal is alarming!!

12. American manufacturing industries are unable to compete against 3rd world countries that are given the further advantages of the Generalized System of Preferences program.

    We must get some modicum of protection before the Orient gets any further entrenched in our markets.

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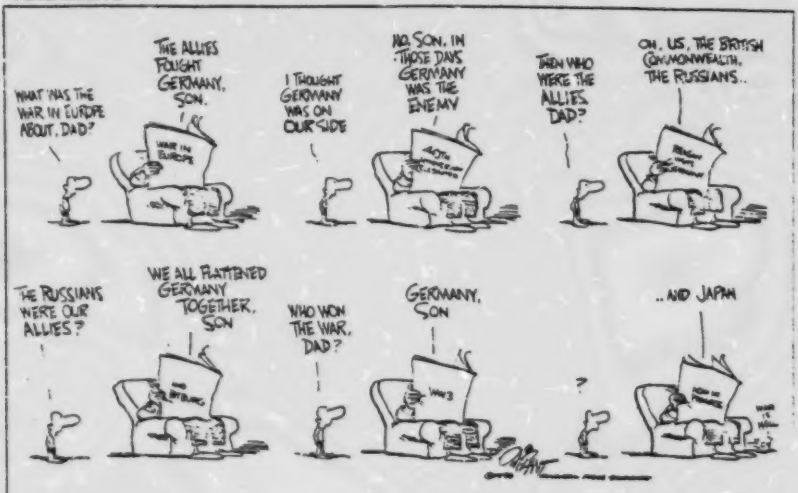
WHAT WAS THE WAR IN EUROPE ABOUT, DAD?
THE ALLIES FOUGHT GERMANY, SON.
I THOUGHT GERMANY WAS ON OUR SIDE
NO, SON. IN THOSE DAYS GERMANY WAS THE ENEMY
THEN WHO WERE THE ALLIES, DAD?
OH, US, THE BRITISH COMMONWEALTH, THE RUSSIANS..
THE RUSSIANS WERE OUR ALLIES?
WE ALL FLATTENED GERMANY TOGETHER, SON
WHO WON THE WAR, DAD?
GERMANY, SON
?
..AND JAPAN

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Mr. SKELTON. Thank you.

Mr. Ireland.

Mr. IRELAND. Thank you, Mr. Chairman.

We have so many things that can be done, maybe each one of you could give us a little priority list. What is the one thing that you discussed that would be most advantageous to solve the export and the import problem?

Mr. Eschenburg?

Mr. ESCHENBURG. We find that the wages are drastically different, which I understand in Taiwan, the average is $1.09 an hour for moldmakers and I feel that the depreciation laws in many countries are definitely around the 1-year mark, which means expense the capital equipment.

We have to currently take 5 years, and I understand it may go longer again, this does not encourage us to spend money.

Mr. IRELAND. You won't change your wages to be competitive?

You cited wages, and there is a vast difference.

Mr. ESCHENBURG. No way we could change the wages.

The wages over there will probably keep going up, but by the time that it levels off, we will probably be out of business.

Mr. IRELAND. How about your wages?

Mr. ESCHENBURG. Our wages have been held pretty much at 2 or 3 percent for the past 3 years, so we are giving increases at far less than a lot of other parts in the country.

The depreciation laws and the tax incentives that the other countries have are mainly what go to makeup the unlevel playing field.

Mr. IRELAND. What is your No. 1?

Mr. CARR. No. 1, I think, is the incentives as far as purchasing equipment, investment tax credit and some of these items.

Also, the disparity between the power of the dollar today, 30 to 40 percent over many of the European countries.

That is hurting us.

Mr. IRELAND. You assign that principally to the deficit; that high value?

Mr. CARR. Yes; and I think that is one of our major problems.

Mr. IRELAND. Mr. Phelps?

Mr. PHELPS. I think we need some laws to discourage our customers, some changes in law to discourage our customers from moving offshore. We serve a customer industry, and that industry finds the only way they can stay in business is to move offshore so perhaps a manufacturing tax as such that has been suggested by several that would be given to those paying FICA or one of the Federal taxes, that might have that advantage.

That might do it.

Mr. IRELAND. Is that not more a protectionist move? Those other gentlemen have talked about being fair but it sounds to me like your solution is more protectionist than simple fairness.

Mr. PHELPS. Perhaps it is; but I believe that the other countries are doing this now. We have opened our borders to every country in the world, and yet the biggest argument I see in the newspaper when it comes to dealing with Japan is when we will ship them another bushel of oranges or when they will accept our beef. They haven't even gotten around to a point where they will accept our telephone parts.

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Mr. IRELAND. Believe me, they haven't taken a whole lot of citrus either.

Mr. PHELPS. I think we need an incentive to keep our industry and our customer here. In 1984 our company did 262,000 dollars' worth of business with General Electric, their TV manufacturing unit in Portsmouth, VA.

That was to prepare them and tool them for 1985 sets, we are only a small portion of that. The 1986 set was not tooled in Portsmouth. There was no prototype done in Portsmouth. They are out now to buy 1 million television sets offshore and they have turned Portsmouth into a warehouse.

Mr. IRELAND. If it saves an industry and we raise the prices so our consumers turn to something else, you haven't solved any problems. Wouldn't it be better to solve the problem by making the other guys play fair so we could sell things in their market?

Mr. PHELPS. Absolutely, if we can make them play fair. That is the way to do it, I agree.

Mr. IRELAND. Thank you, Mr. Chairman.

Mr. SKELTON. Mr. Luken.

Mr. LUKEN. I would like to ask Mr. Phelps: You are in business, right?

Mr. PHELPS. Yes, sir.

Mr. LUKEN. Has your business experienced losses as a result of foreign competition?

Mr. PHELPS. Yes, we have.

Mr. LUKEN. Could you detail briefly what that has been?

Mr. PHELPS. I just did with the General Electric Co. At one time we did as much as $2 million a year with the Xerox Co. in Webster, NY. At this time Xerox is buying most of their units offshore, doing most of their subcontracting and that type of thing offshore, and there is no longer a market there for us.

This past year, I doubt that we did over $50,000 with the Xerox Co. We still call on them. The business just is not there.

Our major business today is military.

If it were not for military work in the Fulton Tool Co., there wouldn't be a Fulton Tool Co. at all.

Mr. LUKEN. As bad as our trade imbalance is, the thing that is keeping up domestic industry, as little as it is being kept up, is the industrial, the military industrial complex that the President has been building.

If that were to level off, would we be in even worse shape?

Mr. PHELPS. Yes, sir; we would be.

Mr. LUKEN. It has been the experience of just about everybody that our current industrial might is shriveling, or our past industrial might has shriveled, and the trend is to physically produce offshore.

That is a word that is used with deadly frequency, so that our manufacturers accept—except for military, we still have some buy-American provisions, and who knows how long that will last?

I have had experiences where machine tools are used for the M-1 tank. I knew Mr. Skelton would help me on that.

The machine tools for the development, or for the manufacture of the Torque M-1 tank are being manufactured in Japan, for example, so we can't count on that protection either.

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I wish to conclude by making this observation, asking for any comments you might have. The question you gentlemen have posed is, or the statement you have made is, Japan and other competing countries subsidize their industry, and so that they are more competitive than our own industry which is less subsidized.

Where do they get the funds to subsidize? How can they afford to do it as a government?

One answer is that they do not spend 1 percent of their GNP for national defense, whereas we spend a number of times that. We spend over $300 billion, so they can afford to subsidize, whereas we cannot afford to, and the result is that if we package this, summarize it, while we lose our industrial base which you have described we are losing, so that we could not fight World War II today, Korea, we couldn't even fight Vietnam today, because we have lost our industrial base, but we are helping to finance the industrial base of countries like Japan.

There is a certain irony to that. Any comment? I think I have utilized my time.

Thank you, Mr. Chairman.

Mr. SKELTON. Thank you. We are under the 5-minute rule.

The gentleman from Indiana.

Mr. HILER. Let me direct a question toward all three of you gentlemen.

How much of the decline in the machine and tool industry, basic metals industries, is due to the fact that we have seen a dramatic change in the economy over the last 15, 20 years? For instance, my background is in the foundry industry, as is Walter Kiplinger's who will be testifying today. Kip is representing the Cast Metals Federation and has for a number of years. The fact is that automobiles today weigh probably on average, 600, 700 pounds per car less than what autos did 10 to 15 years ago. Plastics are being used. Cars have been downsized. Parts are more interchangeable, and so forth.

How much of the machine tool industry that has declined would be due to the lack of the investment incentives, and import penetration that you have mentioned, and how much is due to the fact that there is just a changed economy?

Mr. CARR. It would be difficult, I think, to put a number, a percentage on these forces. When you look at a car and you say you have reduced the weight by 600 pounds, you probably have not reduced the number of pieces in that car. It still takes a fender, whether it is made out of aluminum, steel, or plastic, it still requires the tools necessary.

I don't think that has changed as much as the fact our customer base has just gone, disappeared. If there were 3,000 pieces in a car, there are still 3,000 pieces in a car. That the point I am getting at, and each one has to be tooled.

Mr. HILER. Don't automobile manufacturers try to have a lot more interchangeable parts?

Mr. CARR. That is right.

Mr. HILER. That would reduce somewhat the number of, that is, if we were selling 10 million domestically produced vehicles 10 years ago, and selling 10 million today, the number of different parts, would probably be less. I don't know the answer to the ques-

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tion. I am just saying, it would seem to me that part of the difficulty that basic industry is facing today is the fact that some of the market is not there, and I am not saying that is all the problem.

Mr. PHELPS. I think some of our market has gone for that purpose, but also, we have had new markets and new markets, as I see them back when I went in business, Xerox was just starting. That was a company machine market which became a tremendous market for our job shop industry in the United States.

Following that was the personal computer market, and it is kind of odd, but every time we heard about a new company opening up, we would all head for Denver—well, we get our work from large industry, and we move in and we meet each other in the lobbies so we move from one industry to another.

Suddenly there are no new industries. Suddenly even the Silicon Valley is slow. It is gone. The business is leaving there.

I visited out there 2 weeks ago, 3 weeks ago, and some of our shops out there had been doing a lot of work on computer printers. The first computer printer from the Xerox Co. had gone to Taiwan to be built in full, and the second and last one that they had in that facility was to go in the spring, and all those people servicing that particular industry didn't know where new work was going to come from.

The loss of business to foreign competition is probably the biggest loss we got. There certainly is a loss in what you are considering.

Mr. HILER. I have one more question.

Mr. Eschenburg, you commented on a variety of percentages, and I didn't get them all down, amount of investment and, percentage of GNP, comparing four or five countries.

One of the things that has a bearing on how much we invest in this country is the fact that we devote a tremendous amount of resources into housing.

Many countries do not have nearly—some of the ones you mentioned do not have nearly the housing stock that this country has, nor the amount of investment that takes place in housing.

Do we in this country face a competition not only with foreign countries, but also a competition for available resources within this country?

We are saying 6 or 7 percent of our GNP, personal savings, it has to finance investment for 1.7 million new housing starts and so forth.

Do you see that type of competition impacting negatively on your industry?

Mr. ESCHENBURG. I think it is very possible. I am not really expert in that area I guess. I might mention that the basic thing that we see is that we feel that there are still as many tools being built out there and molds; it is just that they are all coming from abroad. So I am not sure I have figured out exactly why that is, except that the marketplace still seems to be there, but the goods that we would normally produce are coming from overseas.

That is the bottom line, and I guess the thing that keeps me up nights lately is wondering how we are going to figure out a way to keep at least our national defense here.

Mr. SKELTON. The gentleman's time has expired.

Mr. Olin.

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Mr. OLIN. Gentlemen, as I take your testimony today, you seem to be talking mainly about the fact that your foreign competitors, or the foreign competitors of your former customers get more government subsidies in their country than is available in this country. Is that really your main point?

Mr. Phelps, maybe I could direct that at you.

Mr. PHELPS. I don't believe that is our main point. I believe we are here stating our problem and we hope we are coming to the experts who can find a method to help us. We need help to keep not only our major industry and customers in the United States, we also need help to keep the job shop industry intact.

This year I have had the opportunity to travel through many, many job shops, and go to over 40 chapters across the country, and each time I go through our members' shops, and in doing that, I am looking at very modern equipment, Harding lathes that are automatic, that turned out a fantastic amount of work for the computer industries in the United States, are suddenly not operating. Going through the shops I am seeing perhaps only about 25 percent of the spindles running and the only way our people can make money is run spindles.

Mr. OLIN. I understand, and I think you are making the case very well, and nobody is questioning the fact that your tooling industry is having a lot of problems. A lot of machine tool companies have decreased their share of the world market. Everybody knows the Japanese machine tools have been flowing in here for about 10 years and they have a big hunk of the market.

It is difficult to sell your tools to a Japanese market. In addition to the high value of the dollar, what do you identify as the principal thing that needs to be fixed to allow you to compete more effectively?

Mr. Carr talked about the value of the dollar. That is something that Congress needs to do something about in terms of getting fiscal affairs of the Government in better shape. I think we are going to be taking some action on that.

This question of foreign subsidies versus U.S. subsidies is certainly one of the things you have been talking about. I wanted to ask, maybe I could ask Mr. Eschenburg, to what extent has your industry association appealed either to the ITC, or to the special trade representative of the Department of Commerce with regard to specific action on specifically identified foreign subsidies that result in unfair trade?

Mr. ESCHENBURG. I would like to refer that question to Mr. Mike Deese, please.

TESTIMONY OF C. MICHAEL DEESE, COUNSEL, NATIONAL TOOLING & MACHINING ASSOCIATION

Mr. DEESE. As several of the witnesses indicated this morning, the National Tooling & Machining Association brought the matter of specific Canadian Government subsidies to the Canadian mold building industry to the attention of the Ways and Means Subcommittee and to the International Trade Commission back in 1983. The ITC conducted a section 332 investigation into the condition of

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the mold industry in the United States, most particularly the automotive mold segment of that industry.

Quite frankly, we were disappointed with the results of the 332 which is merely a fact-finding inquiry, as you know. We provided this subsidies book to the ITC staff who hadn't seen it before and asked them to investigate. As we understand it, they got little cooperation from the Canadian Mold Builders Association, the Windsor Mold Alliance and little cooperation from the provincial, and the Canadian governments that are involved in the subsidies.

The ITC report that was published really was inconclusive. The trade association is still considering not only attempting further section 332 investigations, but using other remedies under the trade laws, but right now those options don't seem to be producing much.

Mr. OLIN. Have you negotiated with Canada?

Mr. DEESE. The association has people on its staff who are constantly in communication with the U.S. Trade Representative's Office.

Mr. OLIN. My impression is that the ITC is the slowest organization known to man. It is really quite ineffective in identifying——

Mr. SKELTON. Mr. Olin.

Mr. OLIN [continuing]. Calling for corrective action, and I don't know whether you would be that harsh in your comments about them or not. Is that one of the areas that we need to fix?

Mr. DEESE. The association, as are many others, is quite frustrated by its inability to convince the Trade Representative's Office, for example, that a real problem exists. Quite often what we find is, they say "You give us the proof." Quite frankly, the proof is not in the hands of these gentlemen who operate here in the United States, but in the hands of people we don't have access to.

Mr. SKELTON. What is your name for the record, please?

Mr. DEESE. Michael Deese. I am counsel to the National Tooling & Machining Association.

Mr. SKELTON. Mr. Eckart.

Mr. ECKART. Didn't the ITC recommend relief from unfair imports for the machine tool industry?

Mr. DEESE. I believe that is the case. We would like to make a distinction between the machine tool industry and the——

Mr. ECKART. I want to know what is the status or disposition of that recommendation?

Mr. DEESE. We understand the 301 proceeding has been sitting for 18 months now and that nothing has happened. I believe a number of the Members of the Senate are concerned about that.

Mr. ECKART. Where has that determination been sitting?

Mr. DEESE. It is a Presidential determination, but it is something that is referred to the U.S. Trade Representative's Office.

Mr. ECKART. If my biology class serves me correct, that is approximately the gestation period for an elephant?

Mr. DEESE. A long time.

Mr. SKELTON. I believe we will have someone touching on that subject on the next panel.

Mr. ECKART. We can make an elephant faster than we can get a decision on this.

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Mr. Phelps, I have great sympathy for your remarks. I have a number of constituents who find themselves in the same boat as you. The number you used was 109 industries have lost some sort of market share. What does that translate in jobs, and what percentage of those losses would be related to trade problems and not, as my friend from Indiana suggests, other economic realignment that may be taking place?

Mr. PHELPS. I don't have that figure on the number of jobs. Do we have that figure with us?

Mr. DEESE. I believe the Federal Government, within the Government, a number of different agencies have come up with a number of different figures, anywhere from 2 million to 6 million jobs, but then we are always hearing about the balance in terms of the new jobs in the service and retailing sectors of the economy as well. The association does not have a figure they have come up with themselves.

Mr. ECKART. Let me wander through a series of suggestions that have been embodied in a dozen major trade proposals, one of which is being unveiled some time even maybe today. Quotas, surcharges, tariffs, new GATT's, a Cabinet-level position focusing on trade or international investment development; what are your preferences?

Mr. DEESE. If I could respond to that very briefly, we would like to make it very clear that we are here today not asking for protectionism of any sort, but rather most pointedly for preservation of the investment tax credit, and preservation of current depreciation rules. We take the position that if we can have these types of investment incentives, we can compete. We are not here asking for tariffs or quotas. We are here asking for preservation of current tax incentives, quite frankly.

Mr. ECKART. Mr. Phelps?

Mr. PHELPS. Well, I hear what was said. I don't completely agree with that. I think we need some more help besides that. I don't think that we can play on an uneven playing field when it is being tilted in some cases by illegal methods.

Mr. ECKART. I point out to the learned counsel that we have ACRS and ITC, and now we are getting the pants kicked off us. Tell us how keeping that which we have, while we are still losing, is going to help us win?

Mr. DEESE. Right now this industry is at a crucial point. They are at a point where there is new equipment available to them, and they need to make the investment decisions to go ahead and spend that money, and with the prospect of losing their tax incentives for those purchases, that is what has them most concerned.

I will agree with you, we are also saying that government subsidies by the Canadians and everyone else are a very real problem for us. We are not here saying to you, "Give us the subsidies." What we are saying is, "Take a look at what the other people are doing also." We are talking today about tax issues.

Mr. CARR. Mr. Eckart, if I may, one of the items is that, generally speaking, the United States is the only one living up to the GATT treaties, and that is one of our biggest problems. We need some hard-line negotiators. We are not asking for anything new. We just want to live by the same rules, and I don't think that it is what is happening.

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New GATT treaties or some understandings of the GATT treaties need to be looked at.

Mr. ECKART. I thank the chairman. I thank the panel.

Mr. SKELTON. The gentlemen's time has expired.

Mrs. Meyers.

Mrs. MEYERS. Thank you, Mr. Chairman.

We have had so many statistics here today, I am a little confused. What share of the world market do we currently have, did you say your industry currently has?

Mr. DEESE. I don't believe we have that information with respect to the world market.

However, we would be most happy to see what information is available and to provide it to the committee.

Mrs. MEYERS. What share of the domestic market within this country is provided by M.S. industry as opposed to foreign business?

Mr. PHELPS. I would like to guess at that. It is just, from what I think I have seen, I believe we may have 50 percent of the market today, and that would be as expressed perhaps 20 years ago as nearly 100 percent of the market.

Mrs. MEYERS. So that part of our problem is because of unfair trade practices and subsidies, and part of it is just currently other nations have begun to produce that didn't used to produce? In other words, we used to have it to ourselves pretty much.

There are differing ways in how we should approach this. Some people just say we should trade a lot tougher. Mr. Phelps, you mentioned telephone parts, and when we open our market to telephone parts from overseas, we got no concessions in return, we just opened our market, and I just don't understand why we did that.

It seems to me we really don't trade very tough. Some people say that it really is not GATT's fault, that we just are not trading very tough in this country, and some people are suggesting maybe GATT has outlived its usefulness, that we should get out of it and make other trade arrangements. Would any of you care to comment on that?

Mr. CARR. I believe we have outlived the usefulness of GATT. Our industry is much like your aircraft industry in Kansas. We are a labor-intensive industry. Seventy-two percent of my sales is what we consider labor sales. Twenty-eight percent is a material pass-through, which is probably much like the aircraft industry.

The labor rates do have a significant impact on the thing, but again the GATT treaties are outdated, outmoded, and we are the only ones that seem to recognize GATT treaties anyway.

Mrs. MEYERS. If we had a new round of trade talks, it would help, but there are those who say that even then, that won't answer the question, that we ought to just not have that kind of an international arrangement which tries to set some kind of rules for the game, we ought to get out of that and make some bilateral arrangements.

It has been suggested, and I am wondering, would that be a more workable trade situation for your industry?

Mr. CARR. What you are talking about is free trade and under the GATT situation, it is not fair trade. Do away with GATT. Let's all go out there and try to get the business any way we can. Let's

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not restrict us only, without the restrictions being on our trading partners.

Mr. ESCHENBURG. I think we have been way too benevolent in the past. We have shown everybody how to build our goods and brought them up to speed and let them look at every single thing that we do and taught them all the technology. I think we have even set up some laws that are in their favor, and I think it is time we should start concentrating a lot more on secrecy of what we do over here.

Mr. SKELTON. Thank you.

One thing that has not really been stressed today, and it came to my attention when I went through Mr. Carr's plant a number of weeks ago, that is the high level of skill that is involved in your business. The question might be asked, regarding the defense industrial base, why you couldn't just go out and open up a new plant. You just don't hire the man off the street to be professionals—that takes literally years—I was amazed at the apprenticeship and the years of real training that goes into this.

I had a question of you, Mr. Carr, that has already been answered regarding the defense industrial base. I went on the Armed Services the same month Dick Ichord was closing out his hearings on the defense industrial base, and I am not sure we have made any progress since then.

That was a frightening series of testimony in 1981. We have regressed rather than progressed since then, and, of course, your industry has also.

I thank you so much for being with us. We hope you will be able to stay for the rest of the testimony.

I must be before the Rules Committee to testify there at 11:30, but as General MacArthur said, "I shall return." I will now yield the gavel to the gentleman from Ohio.

Mr. LUKEN [presiding]. The next panel consists of Mr. James Mack, public affairs director, National Machine Tool Builders; Mr. Walter Kiplinger, secretary, Metalworking Fair Trade Coalition; and Ms. Ilona Modly Hogan, executive director, Alliance of Metalworking Industries.

Mrs. Hogan, you may proceed in any manner you think will be especially helpful.

TESTIMONY OF ILONA M. HOGAN, EXECUTIVE DIRECTOR, WASHINGTON COUNSEL, ALLIANCE OF METALWORKING INDUSTRIES, WASHINGTON, DC, ACCOMPANIED BY JON JENSON, PRESIDENT, AMERICAN METAL STAMPING ASSOCIATION

Ms. HOGAN. Thank you, Mr. Chairman.

I had the pleasure of testifying before the members of your subcommittee earlier this summer on similar matters, and I will try not to be redundant in some areas.

I am joined this morning by Mr. Jon Jenson, president of American Metal Stamping Association, headquartered in Richmond Heights, OH. I am also testifying on behalf of the chairman of the Alliance of Metalworking Industries, Mr. David Pohlman of Maryland Heights, MO.

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My name is Ilona M. Hogan. I am executive director and Washington counsel for the Alliance of Metalworking Industries. We very much appreciate this opportunity to offer our comments on the impact of imports and tax reform on small business manufacturers.

Our industry is composed of small metalworking manufacturers. These contract manufacturers constitute 11 metalworking sectors in which the average plant has about 30 employees. Although truly representative of small business, their total influence on the manufacturing economy is far reaching. While some companies produce end products and/or catalog items, most companies are suppliers to a wide variety of manufacturers whose products are found in practically every market in this country.

Major customers include industries such as: Aerospace, defense, automotive, appliance, construction, equipment, energy, electronics, agricultural equipment, nuclear, transportation, and recreation.

Included in AMI's membership are the National Screw Machine Products Association, Metal Treating Institute, Forging Industry Association, American Metal Stamping Association, Spring Manufacturers Institute, Industrial Fasteners Institute; and as associate members, the American Gear Manufacturers Association, the Hand Tools Institute, Industrial Heating and Equipment Association, National Tooling & Machining Association and the Steel Service Center Institute. Total employment in these 11 metalworking sectors is more than 500,000 persons in nearly 20,000 plants with a total sales volume in excess of $57 billion annually.

All of that is a lot of numbers and a lot of names and may not mean much unless you see something tangible, and this is the reason I brought this little sack here, which members of the subcommittee may wish to look at. I brought it because I know both chairmen have a particular interest in national defense and national security.

These are industrial fasteners. If you look at them you will see the various stages in the process of making a fastener. As you look at them closely, you will note that there are not too many tanks or planes or aircraft carriers or munitions of any kind that don't use a great many of these little widgets.

With respect to the prior testimony about targeting of our industries in the national defense area, the fastener industry is one of those which, in the late 1970's, early 1980's, was targeted to the point of virtual decimation of the industry. The industry association itself spent more than $2 million trying to proceed under our trade laws to obtain relief. They brought some five or six different actions, including a section 232, national security petition. [An issue which Jim Mack will speak to with respect to his industry.] That 232 concluded after months and months of waiting, with a final decision that there was no national security problem with respect to the fastener industry. The Department of Defense and Department of Commerce found that we have a perfectly secure source of these fasteners.

The question is: Is that secure source of fasteners in the industrial base of Ohio? Is it in the industrial base of Missouri, of Illinois? The answer is no. DOD and Department of Commerce found that our secure source of industrial fasteners for our national defense

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material is in Japan. Granted, today that may be a perfectly secure source of fasteners, but my question is: Was it in the 1940's, and hopefully not, but the question will be: Will it again be in the 1980's, 1990's, the year 2000?

I apologize for that rather lengthy aside, but I wanted to bring the tangible aspect of the testimony to your attention.

The focus of your joint subcommittee hearing this morning is threefold: One, Why imports are increasing and exports decreasing; two, the impact of imports on industry and recommendations on what should be done; three, how the proposed tax reform may affect industry.

We are pleased to address your concerns in these areas because we very much share those concerns.

One, why imports are increasing and exports decreasing: Our response to the first item is necessarily brief but of cosmic impact. In our view, imports are increasing and exports decreasing for four basic reasons: One, budget deficits; two, trade policies; three, exchange rates; and four, tax policies.

While much more can be said and is being said about these four topics in the Congress and in the country, our discussion of them in this testimony will be limited to their interrelationship in the context of our responses to the subcommittees' second and third areas of inquiry.

Two, impact of imports on industry and recommendations: AMI's concern about the impact of imports on the metalworking industries is reflected by its leadership role in major industry and labor coalitions seeking comprehensive trade law reform, namely the Metalworking Fair Trade Coalition and the Trade Reform Action Coalition. AMI shares with our colleagues in these coalitions two concerns: one, what is happening to our industries because of unfair and injurious foreign trade practices, and, two, the inability of current trade remedy laws to deal adequately with such practices.

More and more of our industries are hobbled by unfair and disruptive imports and by closed markets abroad. Some economists believe we are merely witnessing a simple shift in comparative advantage that is a natural part of the adjustment process. We should not be fooled.

What we are seeing today is the systematic decimation of America's industrial base. One industry after another—including our most competitive high-tech industries—is losing market share as a result of foreign unfair and injurious trade practices. Our trade deficit was a record $123 billion last year and could soar to $150 billion this year. We have lost about 2 million manufacturing jobs in this country since 1979 alone.

These job losses have spanned all manufacturing and have severely impacted some of our most vital industries. They are manufacturing jobs we will never see again. These jobs—as the President stated recently—have been replaced by new service sector jobs in the travel industry and in fast food establishments. I submit, however, that a great industrial economy needs more than just service jobs, it requires a sound manufacturing base.

The U.S. economy is today at a crossroads and in dire need of direction. We can continue to pretend that our present trade policy

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is sufficient, while our trading competitors are destroying our most vital industries, or we can take another path, and that is to give our industries stronger tools to defend themselves in what is already a full-scale international trade war, a war that we are unfortunately losing.

These groups have been working very hard to obtain relief, not protective relief, just fair, level playing field type of relief. This year we are supporting, H.R. 2809, the Comprehensive Trade Law Reform Act of 1985, which will simplify, expedite and make more effective the procedures for relief from unfair or injurious foreign trade practices under U.S. laws.

The strong AMI interest in reforming the trade remedy laws governing foreign dumped and subsidized goods stems from the massive, cumulative damage suffered by our members as a result of dumped and subsidized imports and the inability of U.S. laws to provide prompt and full relief.

Dumping is recognized by U.S. law and international agreement to be an unfair trade practice that can cause great harm. It occurs when a foreign firm sells a product in the U.S. market at a price lower than its average cost of production.

Subsidization is also recognized by U.S. law and international agreement to be an unfair trade practice that can cause great damage. Such injury can occur whenever a foreign government provides an export subsidy, direct cash grants, or provides other direct and indirect assistance to an industry whose products are exported to the U.S. market.

Our subsidy and dumping laws are designed to ensure that genuinely competitive U.S. firms are not driven out of business by foreign unfair trade practices. Unfortunately, however, many subsidy and dumping practices are unreachable under our current trade laws. For instance, while we can take action against directly dumped or subsidized products, there is a gaping loophole in U.S. trade laws regarding unfair trade that is indirect. Current law does not apply at all to dumped inputs that are contained in imports of fabricated products, and existing law only partially reaches inputs that are subsidized. The ultimate effect of foreign fabricated imports containing dumped or subsidized inputs is a severe competitive disadvantage for U.S. producers of competing products.

To close this loophole, H.R. 2809 makes actionable under the dumping laws the foreign unfair trade practice known as "diversionary dumping," which both Houses of Congress passed in similar form in the 98th Congress as a part of the Trade and Tariff Act of 1984, but unfortunately that provision was dropped in the Conference Committee.

In all, title I of H.R. 2809 contains 10 essential changes to U.S. dumping and subsidy law and, taken as a whole, they do 2 important things: One, they broaden the accessibility of our unfair trade laws to industries that are now denied relief because the laws are either too narrowly defined or are interpreted and administered in such a way as to limit their applicability; and two, they provide more predictability and fairness as to how these laws will be administered.

Article 1, section 8 of the Constitution states that Congress shall regulate commerce with foreign nations. In practice, Congress has

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delegated much of the authority for the management of our trade affairs to the Executive over the years.

However, our trade affairs are not being managed well when the trade deficit is at record levels, when our manufacturing industries are being ravaged by imports but denied import relief by the President, and when many high-tech industries are being seriously harmed by foreign unfair trade practices. We, therefore, believe it is time for Congress to reassert its constitutional powers in this area, and we appeal to you to voice these concerns of the small business community to your colleagues who serve on the trade subcommittees of this Congress.

Three, how proposed tax reform may affect industry: Initially it must be conceded that any sincere effort—whether it comes from the administration or the Congress—to simplify and simultaneously to bring fairness to the Tax Code should be applauded.

The repeated recognition by the President and by Congress of small business' role in job creation and its contribution to the health of the economy in this Nation is clearly a positive signal to the small manufacturing community.

We submitted testimony in July before one of the subcommittees here this morning, so I won't go through that testimony again, unless you have specific inquiries.

I would be happy to answer any questions related to that aspect, however. Thank you for you attention.

[Ms. Hogan's prepared statement follows:]

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PREPARED STATEMENT OF ILONA M. HOGAN, EXECUTIVE DIRECTOR, WASHINGTON COUNSEL, ALLIANCE OF METALWORKING INDUSTRIES

Mr. Chairman and Members of the Committee, my name is Ilona M. Hogan. I am Executive Director and Washington Counsel for the Alliance of Metalworking Industries. We very much appreciate this opportunity to offer our comments on the impact of imports and tax reform on small business manufacturers.

Our industry is composed of small metalworking manufacturers. These contract manufacturers constitute eleven metalworking sectors in which the average plant has about 30 employees. Although truly representative of small business, their total influence on the manufacturing economy is far-reaching. While some companies produce end products and/or catalogue items, most companies are suppliers to a wide variety of manufacturers whose products are found in practically every market in this country.

Major customers include industries such as aerospace, defense, automotive, appliance, construction, equipment, energy, electronics, agricultural equipment, nuclear, transportation, and recreation.

Included in AMI's membership are the National Screw Machine Products Association, Metal Treating Institute, Forging Industry Association, American Metal Stamping Association, Spring Manufacturers Institute, Industrial Fasteners Institute; and as Associate Members, the American Gear Manufacturers Association,

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the Hand Tools Institute, Industrial Heating and Equipment Association, National Tooling and Machining Association and the Steel Service Center Institute. Total employment in these eleven metalworking sectors is more than 500,000 persons in nearly 20,000 plants with a total sales volume in excess of $57. billion annually.

For small metalworking companies, daily engaged in the ever more intense struggle against foreign and domestic competition, it is virtually impossible to come before this Committee with econometric models of the impact of proposed tax reforms on their businesses. Unlike our bigger business brethren, we cannot parade charts and graphs before you to explain the differing impacts of Treasury I, Treasury II, Reagan I, Rostenkowski I, etc. on these small businesses.

Rather we come before you voicing opinions on tax reform that are formed the same way that many of the day-to-day business decisions are made in a small plant, i.e. visceral reactions based on prior experiences in the business.

To the extent that those experiences add to your deliberations on the impact of imports and tax reform on small manufacturers, we are pleased to offer some thoughts.

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The focus of this Joint Subcommittee hearing this morning is threefold:

1. Why imports are increasing and exports decreasing.
2. The impact of imports on industry and recommendations on what should be done.
3. How the proposed tax reform may affect industry.

We are pleased to address your concerns in these areas because we very much share those concerns.

I. WHY IMPORTS ARE INCREASING AND EXPORTS DECREASING

Our response to the first item is necessarily brief but of cosmic impact. In our view, imports are increasing and exports decreasing for four basic reasons:

1. Budget deficits
2. Trade policies
3. Exchange rates
4. Tax policies

While much more can be said, and is being said, about these four topics in the Congress and in the country, our discussion of them in this testimony will be limited to their interrelationship in the context of our responses to the Subcommittees' second and third areas of inquiry.

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II. IMPACT OF IMPORTS ON INDUSTRY AND RECOMMENDATIONS

AMI's concern about the impact of imports on the metalworking industries is reflected by its leadership role in major industry and labor coalitions seeking comprehensive trade law reform, namely the Metalworking Fair Trade Coalition and the Trade Reform Action Coalition. AMI shares with our colleagues in these coalitions, two concerns: (1) what is happening to our industries because of unfair and injurious foreign trade practices, and (2) the inability of current trade remedy laws to deal adequately with such practices.

More and more of our industries are hobbled by unfair and disruptive imports and by closed markets abroad. Some economists believe we are merely witnessing a simple shift in "comparative advantage" that is a natural part of the adjustment process. We should not be fooled.

What we are seeing today is the systematic decimation of America's industrial base. One industry after another -- including our most competitive hi-tech industries -- is losing market share as a result of foreign unfair and injurious trade practices. Our trade deficit was a record $123 billion last year and could soar to $150 billion this year. We have lost about 2 million manufacturing jobs in this country since 1979 alone. These job losses have spanned all manufacturing and have

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severely impacted some of our most vital industries. They are manufacturing jobs we will never see again. These jobs -- as the President stated recently -- have been replaced by new service sector jobs in the travel industry and in fast food establishments. I submit, however, that a great industrial economy needs more than just service jobs: it requires a sound manufacturing base.

The U.S. economy is today at a crossroads and in dire need of direction. We can continue to pretend that our present trade policy is sufficient, while our trading competitors are destroying our most vital industries; or we can take another path, and that is to give our industries stronger tools to defend themselves in what is already a full-scale international trade war, a war that we are unfortunately losing.

Some of the tools of a more effective trade policy can be found in legislation pending before Committees of the Congress at this time. The legislation supported by AMI, H.R. 2809, the Comprehensive Trade Law Reform Act of 1985, will simplify, expedite and make more effective the procedures for relief from unfair or injurious foreign trade practices under U.S. laws.

The strong AMI interest in reforming the trade remedy laws governing foreign dumped and subsidized goods stems from the

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massive, cumulative damage suffered by AMI members as a result of dumped and subsidized imports and the inability of U.S. laws to provide prompt and full relief.

Dumping is recognized by U.S. law and international agreement to be an unfair trade practice that can cause great harm. It occurs when a foreign firm sells a product in the U.S. market at a price lower than its average cost of production.

Subsidization is also recognized by U.S. law and international agreement to be an unfair trade practice that can cause great damage. Such injury can occur whenever a foreign government provides an export subsidy, direct cash grants, or provides other direct and indirect assistance to an industry whose products are exported to the U.S. market.

Our subsidy and dumping laws are designed to ensure that genuinely competitive U.S. firms are not driven out of business by foreign unfair trade practices. Unfortunately, however, many subsidy and dumping practices are unreachable under our current trade laws. For instance, while we can take action against directly dumped or subsidized products, there is a gaping loophole in U.S. trade laws regarding unfair trade that is indirect. Current law does not apply at all to dumped inputs that are contained in imports of fabricated products, and

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existing law only partially reaches inputs that are subsidized. The ultimate effect of foreign fabricated imports containing dumped or subsidized inputs is a severe competitive disadvantage for U.S. producers of competing products.

To close this loophole, H.R. 2809 makes actionable under the dumping laws the foreign unfair trade practice known as "diversionary dumping" (which both houses of Congress passed in similar form last session). This would allow the Commerce Department to pursue investigations where, for example, Japanese steel was sold to a Korean automobile manufacturer at a dumped price, and the Korean autos containing this dumped steel were then exported to the U.S. market.

In all, Title I of H.R. 2809 contains ten essential changes to U.S. dumping and subsidy law and, taken as a whole, they do two important things: (1) they broaden the accessibility of our unfair trade laws to industries that are now denied relief because the laws are either too narrowly defined, or are interpreted and administered in such a way as to limit their applicability; and (2) they provide more predictability and fairness as to how these laws will be administered.

Article 1, Section 8 of the Constitution states that Congress shall regulate commerce with foreign nations. In

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practice, Congress has delegated much of the authority for the management of our trade affairs to the Executive over the years. However, our trade affairs are not being managed well when the trade deficit is at record levels; when our manufacturing industries are being ravaged by imports, but denied import relief by the President; and when many hi-tech industries are being seriously harmed by foreign unfair trade practices. We therefore believe it is time for Congress to reassert its constitutional powers in this area, and we appeal to you to voice these concerns of the small business community to your colleagues who serve on the Trade Subcommittees of this Congress.

III. HOW PROPOSED TAX REFORM MAY AFFECT INDUSTRY

Initially, it must be conceded that any sincere effort - whether it comes from the Administration or the Congress - to simplify and simultaneously to bring fairness to the tax code should be applauded. Secondly, the repeated recognition by the President and by Congress of small business's role in job creation and its contribution to the health of the economy in this nation is clearly a positive signal to the small manufacturing community.

Clearly, there are many elements of tax reform which few could fault. Personal and corporate income tax reductions should result in new sources of capital for the many small businesses that rely more heavily on their company profits as

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well as personal savings for company growth to a much greater degree than do larger companies.

Difficult choices arise out of the economic realities that rate reductions would impose however. To balance any tax cuts, new revenues must be garnered elsewhere to pay for those cuts. And that economic reality, that necessary balance, of course, raises the even more fundamental issue of balancing the Federal budget, of reducing the budget deficit. Without dwelling overlong on a subject not germane to this hearing, it is incumbent to reiterate the basic position of the metalworking industries that Congress and the Administration must come to grips with deficit reduction through spending cuts before there is further discussion of revenue-neutral tax reform.

Notwithstanding that basic premise, the Congress is confronted now with various tax reform proposals. For purposes of this hearing, we have chosen to focus on capital formation issues. In our view, these proposals would reduce the incentives for capital investment by stretching out the period for depreciation and eliminating the investment tax credit. For capital intensive small business industries like ours and many others, the trade for lower individual and corporate rates could turn out to be a disastrous one with vast implications for small business and the U.S. economy.

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The Investment Tax Credit, for example, offers business a direct incentive to increase productivity through capital investment. It makes more money available to business by combining with other means of raising capital to keep the overall cost of capital low. The ITC makes U.S. companies better able to compete, especially with foreign business, and to finance research and development critical to our country's future. And with more capital formation, there are more jobs created, which in turn increases tax revenues.

In fact, all investments do not carry the same risk. Investment in fixed depreciating assets (such as equipment) incurs more risk than investment in appreciating assets (such as real estate), additional labor, guaranteed securities, or working capital. ITC not only helps keep the cost of equipment down, but it helps recover costs more rapidly, therefore leveling the risk as compared to other investments.

With respect to capital formation, the metalworking industries were among the first to recognize the need for accelerated depreciation and investment tax credits. In 1978, AMI presented testimony before the House Ways and Means Committee, the tenor of which was repeated in other testimony many times until enactment of the 1981 tax bill. We reiterate it

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today because once again, small businesses face a tax policy with dire consequences for their competitiveness, not just in the domestic marketplace but vis-a-vis their foreign competitors as well.

In 1978, the then-Chairman of AMI stated:

> As small businessmen we consider ourselves the most competitive and the most responsive element of the free enterprise system in the United States today. A majority of all employed Americans work in small companies such as ours. We are, therefore, eminently concerned not only with the development of new products but also with the growth of jobs in our industries. Whether we can continue to grow in these areas depends in no small part on the updating of tax code provisions to ease the burdens on small companies and to stimulate the small business economy.... The economy cannot afford an on-again, off-again approach to the investment credit absent a modern capital cost recovery system equal to that enjoyed by our foreign competitors....
>
> On balance, however, what is even more important than the specific form of simplified depreciation provisions is that the Congress adopt a tax policy that encourages the replacement of obsolete and inefficient plants, machinery and equipment so that American enterprise will outproduce its rivals, continue to provide jobs, and maintain American leadership in the world marketplace....
>
> At the present time, American business is at a distinct disadvantage with regard to replacing its obsolete machinery and equipment because most of the major industrialized nations offer capital cost recovery allowances superior to those provided in this country. Prompt capital recovery allowances should be designed to encourage modernization and expansion of productive facilities in order to make American industry fully competitive and capable of meeting the added demands of our economy.

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Needless to say, the depreciation reforms and the extension of the investment tax credit by the Economic Recovery Tax Act of 1981 were most welcomed by our industry. Our position today has not changed. If anything, our basic plea would be that the code not be reformed quite so often. At least in the area of small business taxation, certainty in the tax code from year to year is almost of more importance than the particular benefits of one piece of legislation versus another.

A further, and more important reason for maintaining the capital formation provisions of the existing Code, stems from the buffetting which the metalworking industries are today experiencing from foreign competition. Much more so than the 1978 testimony would suggest, in today's global business environment, it is our considered opinion that this Congress can no longer afford to enact new tax policies without thorough consideration of the impact of those domestic tax policies on our international trade policies.

As a nation we are faced with twin deficits - budget and trade - and we can no longer afford to seek deficit solutions in a vacuum. Whether it is a tax solution, a trade solution, or a budget solution, they are interrelated policies with serious repercussions on the American manufacturing community.

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What would be the effect of reduced depreciation benefits on these capital intensive small businesses in their efforts to remain competitive in an international marketplace? It's clear that many of those higher taxes would have to be passed on to the ultimate consumers by companies and industries which are already marginal at this time. Clearly the result would be more capital intensive small businesses going out of business, fewer jobs and a greater trade imbalance.

Of course, there are many reasons for the increase in foreign products consumed in this country. They include the high dollar exchange rate, legal and illegal subsidies, lower wage rates, foreign tax laws that allow expensing of capital equipment in many countries and the rebate of domestic taxes paid on exports in others, and many more.

But the point of our appearance here today is to suggest that all of the causes of these problems - and hopefully their solutions - can be addressed by this Congress by focusing on the interrelated character of our domestic tax policy with our international trade policy - of our domestic economic policy with our international economic policy. Nowhere are the consequences of your actions - or inactions - more drastically realized than among the small manufacturing sectors of our economy.

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Finally, while it is relatively easy for us to articulate some of these problems, we are not as easily able to suggest to you the best overall solutions. However, we believe it is a hopeful sign that the members of this Committee - and your colleagues in both Houses - have introduced a myriad of tax and trade bills for consideration by the Congress. In the paraphrased words of Senator Danforth, Chairman of the Senate International Trade Subcommittee - We have tried all of the conventional solutions, perhaps it's time to look to the unconventional.

In our view, it is time and we strongly recommend that these various legislative proposals be aired. To the extent that this Committee is doing so today through this hearing process, we commend you highly.

Thank you for the opportunity to participate.

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Mr. LUKEN. Thank you Ms. Hogan.
Mr. Mack.

TESTIMONY OF JAMES H. MACK, PUBLIC AFFAIRS DIRECTOR, NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION

Mr. MACK. Our purpose is to give you a brief outline of our industry's competitive outlook, and it is not a pretty picture.

The machine tool industry is a very highly cyclical industry. We suffered in 1982-83 the worst downturn in our industry's history since the Great Depression. We have recovered about half of where we were in 1981 at the peak of the last cycle. We are about at where we were at the bottom of the previous cycle.

Imports, on the other hand, have regained everything that they lost in the business downturn, and as a matter of fact, are slightly above where they were when we went into the downturn. The industry is used to going into and coming out of business cycles, but never before have we had the challenge of coming out of a business cycle with imports at the level that they are at today.

Imports, measured by value, account for more than 40 percent of the 1985 domestic machine tool consumption, and they have shown every sign of maintaining or increasing their market share. It was because of the threat of import dominance into the U.S. machine tool market that early in 1983 NMTBA filed a petition for import relief under section 232, the National Security Clause.

The Commerce Department submitted a reportedly favorable recommendation for action to the President on February 28, 1984. So for the past 21 months—actually the 21st month will expire on Thanksgiving Day—the industry's future, and, I would submit, the national security of the United States, has rested squarely in the Oval Office. Despite overwhelming bipartisan support from Congress, the petition remains hung up in the National Security Council and the President still has not acted.

NMTBA has long been in the forefront of promoting U.S. exports, because we know exports are critical to keeping and maintaining a competitive edge.

However, these efforts have great difficulty overcoming the effects of the overvalued dollar, the lack of competitive export financing, uneven administration of presumably multilateral export controls under Cocom, and the effects of foreign government targeting of their machine tool exports.

Repeal of the 10-percent investment tax credit and depletion of ACRS, as proposed in the administration's tax reform package will, by increasing the cost of capital for our members and their customers, make us even less competitive at home and abroad.

Our written statement outlines a number of actions by our Government which, if adopted, could go a long way toward helping the machine tool industry at home and abroad. First, the administration must act immediately and favorably on our National Security Trade Petition. We urge you to adopt this fall legislation authored by Congresswoman Lynn Martin of Illinois, and you, Mr. Chairman, mandating the President to do so.

Second, we urge you to adopt international competitiveness as a principal goal of tax reform. We urge you to retain in the Tax Code

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a meaningful capital cost recovery system which both encourages and provides the wherewithal for timely investments in new productive equipment, in research and development, and to resist destroying the effectiveness of those incentives through measures like the corporate minimum tax that has been proposed by the Ways and Means Committee staff.

Third, we urge you to adopt legislation which will specifically make the unfair targeting of U.S. industries by foreign governments an actionable offense under our trade laws.

Finally, the House Armed Services Committee recently adopted report language urging the Defense Department to reevaluate its policy of purchasing foreign machine tools for Government-owned facilities. We urge you to followup on this report language, and if the administration is unwilling to stop purchasing foreign machine tools for Government-owned facilities, we urge you to mandate them to do so when the 1986 defense authorization is before you next year.

Mr. Chairman, I urge you to encourage development in American productivity, in American manufacturing technology, in machine tools built in America. We are a small industry with annual sales of $2 to $3 billion. But everything in this room, except you and I, was either made by a machine tool or made by a machine that was made by a machine tool.

If our industry is allowed to be overwhelmed by imports, the innovations and the new manufacturing process technology it provides America's manufacturing industries will be lost forever. Foreign firms will then have the upper hand in the development of new technology and will be the leaders in the drive for more efficient lower cost production of manufactured goods. The loss of America's machine tool building capability could well signal the beginning of the decline not just for our industry, but for all of America's metalworking manufacturing industries, including our defense base.

I urge you to use your good influence in the Congress of the United States—which this committee has been able to use in other areas over the years—to prevent this from happening. We appreciate this opportunity to tell you our story and to offer our suggestions and are ready to respond to your questions.

Mr. LUKEN. Thank you, Mr. Mack.

[Mr. Mack's prepared statement follows:]

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PREPARED STATEMENT BY JAMES H. MACK, PUBLIC AFFAIRS DIRECTOR, NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION

Good morning. I am James H. Mack, Public Affairs Director of the National Machine Tool Builders' Association (NMTBA), a trade association representing just under 300 member companies which account for approximately 85% of machine tool production in the United States.

My purpose today is to give you a brief update on the machine tool industry's competitive outlook.

Throughout 1983, while the economy as a whole experienced robust growth, the machine tool industry failed to share in the cyclical expansion. In fact, when measured in terms of shipments, 1983 was a disastrous year. Deliveries of new machine tools totaled just $1.8 billion, slightly more than half the level of the previous year and only about one-third the 1981 total. Although orders were up, the increase was a meager 13% over the extremely low level of 1982.

However, the machine tool market gained some momentum during 1984. New orders for the year were 72% ahead of comparable 1983 figures -- but were only 45% of the prior cyclical peak. Shipments, reflecting the relatively slow pace of 1983 orders, were up 23% over 1983 levels.

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Unfortunately, this positive momentum has not carried forward into 1985. Orders are down 11% for the first three quarters. Shipments are up 11% over 1984, but this increase in shipments is not likely to be sustained, given the weakening order outlook.

At this point, the only source of strength for the industry has been capital spending by the automobile and related industries. The machine tool industry's auto-related orders, while welcomed, are limited primarily to four product lines: transfer machines, large presses, certain grinding machines and gear-making machinery. Virtually all other major machine tool consuming industries have flattened out their capital spending.

These data hardly signal a full-fledged return to prosperity for the machine tool industry. Most machine tool builders continue to remain in a state of severe financial strain due to the modest recovery in shipments. The total industry lost money in 1983 and 1984; a year some analysts now feel may be a cyclical peak. Getting through this cash-flow crisis is the industry's immediate concern. 1985 appears to be another tough year for U.S. machine tool builders.

A major factor complicating the prospects for recovery is the spectre of <u>further</u> import inroads into the American machine tool market. Imports, measured by value, account for more than 40% of 1985 domestic machine tool consumption. Unfortunately, imports have shown every sign of maintaining or increasing this market share.

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The most vulnerable domestic markets continue to be numerically controlled machining centers and turning machines -- two "high tech" and defense-sensitive machine tools which are vital components of flexible manufacturing systems and "factories of the future" that we are all hearing so much about.

It is because of the threat of import dominance in the machine tool market, the industrial backbone of American manufacturing and America's defense industries, that early in 1983 the NMTBA filed a petition for import relief with the Secretary of Commerce under Section 232 of the Trade Act of 1962, the National Security Clause. While the Association has long been a proponent of free trade and has one of the most active international trade promotion efforts in the trade association field, we cannot stand idly by while key segments of the American machine tool industry are decimated by targeted sales of foreign machine tools -- and, more importantly, while the national security of the United States is imperiled by the transfer of machine tool productive capacity to the Far East. Frequently assisted by subsidies and a variety of preferential programs sponsored by their respective governments, foreign builders have come to dominate certain key sectors of our domestic machine tool market, a fact we find blatantly inconsistent with our vital national interests.

The significance of the threat of machine tool imports goes far beyond the welfare of just the domestic machine tool building industry. If the industry is allowed to be overwhelmed by

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foreign products, the innovations and new manufacturing process technology that it provides America's manufacturing industries will be lost. Foreign firms will then have the upper hand in the development of new technology and will be the leaders in the drive to more efficient, lower-cost production of manufactured goods. The loss of American's machine tool building capability could well signal the beginning of the decline for all of America's metalworking manufacturing industries.

The Commerce Department submitted a reportedly favorable recommendation for action on the Petition to the President on February 28, 1984. Thus, for the past 19 months, the fate of the industry's future has rested squarely in the Oval Office. Yet despite overwhelming bipartisan support from Congress for a favorable ruling, the Petition remains hung up in the National Security Council and the President still has not acted.

With two and one-half years having passed since the initial filing, most NMTBA members, aware that a timely resolution is not forthcoming, have, out of necessity, moved ahead with investment decisions that could no longer be postponed. Some companies decided to completely withdraw from the machine tool business; others are transferring what is left of their operations offshore. The end result is, of course, an unmistakable erosion of the very core of this nation's productive capacity. The President must act before this erosion becomes entirely irreversible.

For the U. S. machine tool industry, the vigorous expansion of export markets has always been a top priority. But

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current levels of import penetration, the recent worldwide recession and the overvalued dollar have severely hampered the industry's ability to export on a competitive basis. Consider that in 1981, exports by U. S. machine tool makers were just over $1 billion; by 1983 exports had dropped to about $400 million -- a decline of 60% in two years. Both 1984 and 1985 (estimated) remain stuck at the $400 million level.

Our Association has long been in the forefront of U.S. exports. NMTBA, on behalf of the American machine tool industry, is devoting its own resources to the development and maintenance of international markets everywhere in the world. The Association employs three staff directors who spend virtually their full time overseas promoting United States machine tool exports.

NMTBA develops seminars and workshops addressing people on all aspects of international trade. We conduct market research to analyze promising markets for industry development. We have conducted 54 Industry Organized, Government Approved (IOGA) overseas promotional activities to help gain a foothold in these new markets. We sponsor foreign exhibitions so that our members will have better opportunities to display their products overseas.

In addition, we work closely with the U.S. Department of Commerce on such activities as recruiting exhibitors for export promotion events such as catalog shows, video tape shows and technical seminars. We organize reverse trade missions to bring foreign buyers to our member plants. And we bring large groups of foreign visitors to the biennial International Machine Tool Show in

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Chicago. In 1984, we attracted over 6,100 foreign visitors. The Commerce Department has worked closely with us in the development and implementation of these programs, as have the Commercial Officers in our embassies and trade centers around the world. Our experience has shown that a vigorous export promotion effort is critical to keeping and maintaining a competitive edge.

However, these efforts have great difficulty overcoming the effects of the overvalued dollar, the lack of competitive export financing, uneven administration of presumably multilateral export controls under COCOM, and the effects of foreign government targeting of their machine tool exports. Repeal of the 10% investment tax credit and depletion of ACRS, as proposed in the Administration's tax reform package will, by increasing the cost of capital for our members and their customers, make us even less competitive at home and abroad.

I wish that I could be more positive, but the facts dictate otherwise. On the bright side, the industry is determined to survive -- and survive it will. But the process of survival for many is likely to include a transfer of more productive capacity and jobs offshore. The Administration's failure to act in a timely fashion on our National Security Import Relief Petition has produced this result -- which, in our opinion, poses a dangerous threat to America's ability to mobilize against or to deter Soviet aggression.

We urge the following actions by our Government, which, if adopted, would go a long way toward restoring the competitiveness of the U.S. machine tool industry at home and abroad.

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First. The Administration must act immediately and favorably on our National Security Trade Petition, filed under Section 232 of the trade laws in March, 1983. This Petition has been gathering dust in -- of all places -- the National Security Council for almost 21 months -- and, all the while, import penetration continues to climb steadily. We strongly urge your passage this fall of legislation introduced by Congresswoman Martin providing a 90 day deadline for Presidential decision-making in future 232 cases and mandating a positive finding in the machine tool 232 case, unless the President successfully negotiates a VRA with Japan.

Second. As the House moves towards tax reform this fall, we urge you to adopt international competitiveness as a principal goal of reform. A shorter, simpler tax form and lower marginal tax rates will be of small comfort to industrial workers who are forced into unemployment lines, because their employers cannot afford the capital necessary to compete. Yet that will be the precise result, unless you retain in the tax code a meaningful capital cost recovery system, which both encourages and provides the wherewithal for timely investments in new productive equipment and in research and development. I must also tell you that the new corporate minimum tax contained in the Ways & Means Committee's staff options paper -- and advocated by some as an alternative to passage of comprehensive tax reform -- will have the effect of wiping out virtually all of the investment incentives still available to capital-intensive and research-oriented companies; and

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will place capital-intensive companies -- large and small -- in a minimum tax position forever.

Third. We urge you to adopt -- either as a part of comprehensive tax reform or as separate legislation -- Congressman Jake Pickle's (D-TX) bill permanently extending the 25% R&D tax credit. We need to encourage the development of new technologies, new products and new processes by American companies. The alternative is to lose entire generations of technologies (and the products they underlie) to our foreign competitors. This technological advancement would be undercut (and the flight of U.S. industries and jobs to foreign countries enhanced) if the watered-down R&D tax credit proposed in the Ways & Means staff options paper is adopted.

Fourth. We urge you to adopt legislation which will specifically make the unfair targeting of U.S. industries by foreign governments an actionable offense under our trade laws. Trade remedy legislation recently introduced in the House by Congressman Frank Guarini (D-NJ) provides a balanced framework for accomplishing this result, and we urge your prompt and careful consideration and passage.

Fifth. We urge you to send a strong message to the Japanese and others, who seek an advantage by unfairly closing their markets to U.S. products while unfairly subsidizing their exports to our country. Our trading partners must be put on notice that their conduct will no longer be tolerated. Perhaps as important, your adoption of legislation like the Rostenkowski/Bentsen 25% import

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surcharge will send a message to the Administration that the American people and their representatives in the Congress are fed up with vacillation, with unwarranted delay, and with appeasement in the prosecution of trade remedies, which seek to balance unfairness and protect the national security of the United States.

Sixth. Next year, the Export-Import Bank charter is up for reauthorization. We urge you to resist efforts by the Administration to water down -- or even terminate -- the Bank's ability to provide competitive financing for U.S. exports. And, as you continue to reduce government spending to reduce the budget deficit, we urge you to remove Eximbank from the chopping block. Eximbank loans are not expenditures. They are repaid over time. We applaud the concept of a "mixed" credit fund to offset predatory export financing by our trading partners, but we urge you to resist proposals to deplete existing Eximbank lending authority (which is already too low) in order to pay for it.

Seventh. Earlier this year, under the leadership of Congressmen Don Bonker (D-WA) and Toby Roth (R-WI), Congress finally adopted overdue reforms of the export licensing process. We urge you to exercise responsible oversight of the Export Administration Act in order to assure that the reforms you enacted this Spring are not undercut by bureaucratic bungling, foot dragging, or over-zealousness.

Eighth. As a part of its consideration of the Defense Authorization of 1985, the House Armed Services Committee adopted report language urging the Defense Department to re-evaluate its

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policy of purchasing foreign machine tools for government-owned defense facilities. We urge you to follow-up on this report language, and, if the Administration is unwilling to stop purchasing foreign machine tools for government-owned facilities, we urge you to mandate them to do so when the 1986 Defense Authorization is before you next year.

Finally, perhaps the most important contribution you can make to the competitiveness of U.S. industry generally -- and of our industry specifically -- is to get the horrendous budget deficit under control. Financing the deficit is a major contributor to the strength of the U.S. dollar, and the strong dollar is simply killing U.S. exports and encouraging foreign imports. We can neither grow nor tax our way out of the budget deficit. The answer is to cut spending. We urge you to continue meaningful reductions in government spending to accomplish this goal.

We appreciate this opportunity to tell you our story and to offer our suggestions. I would be happy to respond to your questions.

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Mr. LUKEN. Mr. Kiplinger, your prepared statement will be received in the record, without objection. You may proceed.

TESTIMONY OF WALTER M. KIPLINGER, JR., VICE PRESIDENT, GOVERNMENT AFFAIRS, CAST METALS FEDERATION, AND SECRETARY, METALWORKING FAIR TRADE COALITION

Mr. KIPLINGER. Mr. Chairman, members of the committees, my name is Walter Kiplinger. I am vice president, government affairs, for the Cast Metals Federation and am offering this statement as secretary to the Metalworking Fair Trade Coalition.

On behalf of the Metalworking Fair Trade Coalition, its 37-member trade associations, with 30,000 plants and 1.5 million workers in 40 States, we thank you for this opportunity to appear before the subcommittees.

This coalition was formed in 1982. The average member company employs only 49 people, yet in the aggregate they make up the backbone of the American metalworking industry, foundries, forgers, fasteners, pipe fitters, valve makers, die casters, gear makers, machine and tool makers.

Many segments of MFTC are endangered species with import penetration ranging from 20 percent—chain manufacturers—to 68 percent—industrial fasteners. Present operating capacity goes as low as 30 to 40 percent.

Metalworking product imports are coming into the United States faster and faster in many forms, as both rough parts, machined parts, portions of assemblies, and simply unclassified because of basket tariff categories.

We have been in national defense work since George Washington, for the most part as subcontractors.

We believe the exchange rates, cheap foreign labor, the cost of Government regulation and global price-cutting are why imports increase.

Dollar value aside, we feel that the logistics of exporting are difficult for small metalworking companies. What they must do to export is find and furnish the right product to the right company in the right country at the right time and at the right price. That is an extremely difficult mix.

Imports have caused the replacement of customer relationships with purely price relationships. Metalworkers looking to protect profitability strongly risk loss of market share, while protecting market share—by suppressed prices—means lost profitability. A continuation of this catch-22 dilemma will find our metalworking product needs, in 1995, being supplied entirely overseas.

Imports, of course, have also contributed strongly to closures throughout metal working.

And imports have resulted in legal searches for trade relief procedures which are both costly and uncertain. The generally quoted cost for a trade case starts at $200,000. Few of our members can afford by themselves to engage in such expensive trade disputes.

Since the coalition was originally started to work for trade law reform, it is only natural that we support the Comprehensive Trade Law Reform Act of 1985—H.R. 2809 and S. 1493. Many of

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our members in their desperation also support the various import surcharge proposals now pending.

On a broader scale our members would prefer Federal spending control and deficit reduction to tax reform. But if tax reform is inevitable, we do not believe the international competitive aspect can be ignored.

Our foreign competitors and their own governments have a relationship we envy. Namely, maintenance of that particular country's economic health.

A stronger application of that same philosophy is needed in the United States.

Thank you.

[Mr. Kiplinger's prepared statement, with attachments, follows:]

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PREPARED STATEMENT OF WALTER M. KIPLINGER, JR., VICE PRESIDENT, GOVERNMENT AFFAIRS, CAST METALS FEDERATION, AND SECRETARY, METALWORKING FAIR TRADE COALITION

Mr. Chairman and committee members, my name is Walter Kiplinger. I am secretary of the Metalworking Fair Trade Coalition (MFTC). MFTC is pleased to have this opportunity to present its views on the impact of imports and the tax proposals to the Small Business Subcommittee on Export Opportunities and Tax.

This four-year old coalition is an alliance of 37 national trade associations in the metalworking industries whose members make products for virtually all industrial and consumer sectors. The 30,000 plants -- that are part of MFTC -- employ 1.5 million persons, produce $96 billion in annual sales and are located in 40 states. A list of member organizations is attached to this statement.

Today there are 49 workers in the average metalworking plant.

The industries which are part of MFTC account for a large share of the U.S. basic manufacturing sector. As such, we are deeply concerned about America's growing trade imbalance and changing tax laws.

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Metalworking products have been critical to national security and America's defense ever since 1742 when a New England metalcaster produced cannonballs for George Washington's Army.

Metalworking products today are key to the manufacture of aerospace systems, planes, ships, tanks, submarines, missiles, ground transport and artillery. We make landing gears, airframes, wings and fins, periscope tubes, propulsion shafts, propellors, tank turrets, tank hulls, mortars, machine guns, howitzers, automatic pistols, as well as less readily identified military applications such as drive gears, sprockets, spindles, muzzle brakes, breech rings and blocks, pumps and bearings.

There is no question about the need for these essential products in time of national mobilization. They are common denominators in this nation's readiness for war.

Yet metalworking companies -- fast losing business to imports -- would be hard pressed themselves to mobilize. Many metalworkers, hard hit by the 1981-1982 recession and by import surges, have been unable to generate enough capital over the past five years to modernize their equipment. Some have had to survive using 30 - 40 percent of capacity.

In 1983 an interagency group in the Reagan Administration determined that 15 of 24 key industries supplying defense related products had import penetration of 10 percent or more. Metalworking companies dominated the 15 key defense base industries being eroded by imports.

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Aside from national security, the range of metalworking products staggers the imagination. No item fashioned by contemporary man is more simple or basic than a frying pan or more vital than a human heart valve or much larger than a giant 125 ton steel housing for a hydroelectric power plant or much smaller than an inlay for a human tooth.

Why Imports are Increasing

We think the four principal factors responsible for increased imports are: an overvalued dollar, low overseas labor costs, various forms of subsidization overseas and government regulations.

Enormous quantities of metalworking products are coming in as rough parts; machined parts, portions of assemblies and simply unclassified because of umbrella tariff categories. No less forbidding is the move by purchasers to "out-source" -- to shift production overseas to reduce dollar costs while the number of jobs in the U.S. is reduced accordingly.

The strong dollar -- and it still is strong, in spite of some jumping around recently -- helps the U.S. in that it brings in foreign investments that finance the huge federal deficit. It also brings in a flood of cheaper foreign products of all kinds that mean lost businesses, lost jobs, and lost taxes.

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Floating exchange rates have made foreign products automatically cheaper, regardless of productivity gains or any other factor. There is a 20 percent to 30 percent automatic price advantage that the exchange rates confer on foreign producers.

Labor rates in the U.S. are higher than they are anywhere else in the world, except in a handful of countries in Europe -- like Switzerland, Sweden, Denmark -- where higher prices and taxes more than compensate for the difference.

Trade association figures demonstrate, however, that American metalworkers have not permitted their labor costs to run wild, nor in many instances have labor unions failed to cooperate.

Subsidization is a common route to global marketing success. It involves money to build facilities (often borrowed from U.S.-financed sources), forgiven taxes, special dispensations, or other ploys that cut selling costs.

Many foreign countries use some version of subsidization commonly. In the U.S., manufacturing industries have not been supported similarly. Whatever the approach, subsidization makes a given product more attractive in world markets.

Among advantages available to foreign metalworkers by foreign governments are:

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-- Low interest rates for capital financing.
-- Income tax exemptions and rebates on export earnings.
-- Special amortization of start-up costs.
-- Payment of customs duties.
-- Accelerated depreciation at twice the rate normally permitted by the foreign government.
-- Government guarantees on long term loans to approved companies producing equipment for export.
-- Rebate of the value added tax imposed on domestic sales.

-- Cheap raw materials.
-- No product liability expenses.
-- Free patterns, molds, and production samples.
-- Free machining and tooling.
-- Free warehousing.
-- Absorbed freight and/or shipping costs.

Regardless of social or human values, real or alleged, government regulations have had a lot to do with giving advantages to imported products.

Much of the increasing volume of imported metalworking products comes from countries in which producers operate on different bases.

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They are producers not subject to the high costs of such U.S. laws and regulations as those involving pollution control, occupational safety and health, workmen's compensation, and other costly programs that add to the cost of finished products.

The partnership so lacking between government and industry in America is omnipresent in happy marriages between our competitors overseas and their own governments.

A more topical example of government regulation is plant closing legislation, H.R. 1616, which effects management's right to make layoff decisions. Here are two paragraphs on that subject from a metalworking executive's letter to his congressman:

"H.R. 1616 seems to be the cap-off. Can you imagine anyone wanting to get into business, with the provisions of that bill hanging over their head if they ever wanted to get out of business? We can't tell, 90 days in advance, how we will operate our foundries. Two weeks ago, we indicated to our employees we did not plan to run our Plant No. 3 during Thanksgiving week. The next week, we changed that. Some orders were released, and we had work to be performed. We presently are attempting to determine what our production schedule will be during the Christmas and New Year's weeks. We cannot determine that yet. We will probably have a two week layoff, and definitely we will have reduction in hours for 50 or more employees. Which 50? Which plant? Which shift? Which employees? Then again, maybe orders will come in, and we will be able to work.

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"What really frightens me is that there are over 170 cosponsors to this bill, who are obviously so ignorant of how companies work, and what real life is like, that the future is really scary."

Why Exports Are Decreasing

Being small businesses, most metalworking companies lack the expertise to investigate and research the export market. Those which do find again that they are price disadvantaged. An example would be the steel foundry which contacted Mitsubishi trying to learn about export opportunities. (See Mitsubishi letter attached.)

In response to the inquiry, Mitsubishi stated that there are more than enough suppliers in Japan and that the price for the product in that country is one half of what the U.S. company would have to charge for it.

Basic to the export of metalworking products is finding the right product for the right company in the right country at the right time and at the right price. Difficult at best.

Additionally, buy-national policies of other countries have excluded competition from American firms. Another competitive imbalance exists when a foreign country requires a percentage of product components to be produced in that particular country before U.S. export sales are possible.

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The Impact of Imports

Price advantaged foreign metalworking imports have left U.S. producers with two Catch-22 choices:

(1) Protect profitability and lose market share or
(2) Protect market share, by suppressing prices, and lose profitability.

Should this dilemma continue over the next 10 years virtually all metalworking products will be produced in off-shore facilities.

Import penetration has also contributed to constant attrition. For instance, 615 foundries have shut down since 1981. Forty forging companies have closed since 1980. Twenty-seven major industrial fastener plants closed between 1981-85. Job losses for just these three metalworking categories are estimated at 275,000.

Imports have also made necessary heavy expenses in legal fees by metalworkers seeking relief under the trade laws. Pursing trade remedy relief is costly, time-consuming and uncertain. Enforcement is inconsistent. Passive response to, and benign neglect of, the aggressive and illegal sales tactics of our foreign competitors is all too frequent.

Recommendations

What is needed is a tough, enforceable and coherent trade policy. The Metalworking Fair Trade Coalition is part of the

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Trade Reform Action Coalition (TRAC) and in that partnership continues to work for comprehensive reform of U.S. trade laws. Through continued trade law reform, the erosion taking place in America's basic industries and the predatory trade practices of foreign rivals could be curbed.

President Reagan's own Commission on Industrial Competitiveness in a report entitled, "Global Competition: The New Reality" declared that our domestic trade policies are not responsive to the new global environment. The commission report stated: "While U.S. trade policy has been fragmented, our domestic trade laws have not been responsive to the new realities of global competition. For those industries threatened by severe import penetration, U.S. trade law has often granted relief only after their injuries have become irreparable. At the same time, U.S. trade remedies for "unfair foreign government practices" have been unable to respond to our competitor's new national strategies."

Specifically, MFTC supports H.R. 2809 and S. 1493, the Comprehensive Trade Law Reform Act of 1985. My co-panelist, Mrs. Hogan, will go into more detail on these proposals.

On a larger scale, MFTC joins with hundreds of other business organizations in urging less government spending and a reduction in federal deficits. In fact, many of our members would prefer Congressional attention devoted to these two objectives rather than tax reform.

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Proposed Tax Reform

The fluid tax reform situation and resultant uncertainty alarms metalworking companies. Investment decisions -- for those able to invest -- must be delayed.

MFTC members feel strongly that the international impact should be considered when changing the federal tax system. The extent to which a tax proposal will hinder U.S. companies with foreign competition should be examined closely.

At this time, when basic U.S. industries are under attack on many fronts, and at a time when major tax revisions are being considered, we believe that major consideration for any tax legislation should be the preservation and enhancement of our industrial employment base. Providing lower cost, partially subsidized, imported consumer products is not doing Americans any favors if they are unemployed or partially employed in low-paying service jobs and unable to purchase even unfairly traded imports.

We support the continuation of the present Accelerated Cost Depreciation Schedules and the Investment Tax Credit. In 1981, there was general agreement on the need to "re-industrialize America". At that time, out-moded depreciation concepts were revised to a more fair system, permitting quicker recovery of investment, as a means to accomplish the stated objective. Subsequently, the ACRS schedules have been modified, unwisely we believe, and now additional modifications are being considered.

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Present law should remain unchanged for at least five years to encourage domestic industrial investment. After a reasonable period, any tax deferred by more rapid depreciation, will begin to flow into the Treasury and any possible revenue "shortfall" will be quickly recovered. Any change, especially the concept of re-capture early, would be breaking faith with investments made already relying in part, upon the tax law in effect at time of investment.

To sum up, the foreign business-foreign government relationship assumes that the objectives of government and business are essentially the same -- namely, the maintenance of that country's economic health. A stronger application of the same philosophy in the United States is needed.

We hope these views will be useful to the subcommittee in its deliberation.

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Metalworking Fair Trade Coalition

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MFTC REGULAR MEMBERS

Forging Industry Association
National Screw Machine Products Association
American Pipe Fittings Association
National Tooling and Machining Association
Alliance of Metalworking Industries

Cast Metals Federation
National Foundry Association
Iron Castings Society
Steel Founders' Society
Non-Ferrous Founders' Society

Valve Manufacturers Association
National Association of Chain Manufacturers
Metal Treating Institute
American Metal Stamping Association (Washer Div.)
U.S. Fastener Manufacturing Group

Industrial Fasteners Institute
Hand Tools Institute
Welded Steel Tube Institute
Association of Die Shops International
American Die Casting Institute

Steel Plate Fabricators Association Inc.
American Wire Producers Association
Expanded Metal Manufacturers Association
Tool & Die Institute
Cutting Tool Manufacturers Association

Industrial Perforators Association, Inc.
American Cutlery Manufacturers Association
American Chain Association
American Gear Manufacturers Association
National Association of Pattern Manufacturers

Plumbing Manufacturers Institute
Brass and Bronze Ingot Institute
Investment Casting Institute
Metal Cutting Tool Institute
American Institute of Steel Construction, Inc.

Anti-Friction Bearing Manufacturers Association
National Lime Association

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MITSUBISHI INTERNATIONAL CORPORATION
CHICAGO BRANCH
SUITE 2100 JOHN HANCOCK CENTER
875 NORTH MICHIGAN AVENUE CHICAGO, ILLINOIS 60611

OUR REF. NO. 6507
August 1, 1985

Mr. Dick Picl
Vice President - Marketing & Sales
The Harrison Steel Castings Co.
P.O. Box 60
Attica, Indiana 47918

Dear Mr. Picl:

With reference to your inquiry per your letter dated 6/17/85 regarding steel castings export, we investigated the Japanese market situation and found the following.

1. Customers in construction equipment and/or machinery area who are supposed to be your immediate interest, did not show keen interest on importing steel castings from off-shore mainly because all of them has more than enough number of local casting suppliers.

2. At the other area of industry a lot of small sized foundry are competing with each other to secure an order of 10 to 50 pieces per lot. We are afraid this may not be your interest but FOB U.S. Port around 34 cents/lb is needed to meet the competition at ASTM A148 GR 90-60.

We are sorry about the above situation but should you have any further request, please feel free to contact us.

Sincerely,

MITSUBISHI INTERNATIONAL CORPORATION
CHICAGO BRANCH

M. Miyoshi, Manager
Steel Products

MM/db

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Mr. LUKEN. Thank you very much.

The gentleman from Indiana.

Mr. HILER. First I would like to welcome Mr. Kiplinger, whom I have known for some 8 or 9 years now. He has provided great Washington leadership to his organization of foundrymen who were not particularly political, although seven of them signed the original Declaration of Independence.

Now, Mr. Mack, I am sure you have been following the process going on over in the Ways and Means Committee room as best as anyone can follow that process. I wonder if you might have any comments on what is currently taking place there in terms of the tax bill and how that would affect your industry?

Mr. MACK. In about 15 minutes, the Capital Formation Task Force is going to be renewing its meeting. There are some interesting proposals before that task force which would, if adopted by the task force and by the Ways and Means Committee, go a long way toward meeting the objective that I suggested in my testimony as one that we ought to meet. We will be following those deliberations through the day very carefully.

I am encouraged to believe that as a result of the chairman's efforts, and the efforts of people on that task force, that many of the problems that have been associated with the effort up to now with respect to international competitiveness may be resolved, but maybe we ought to talk later on in the afternoon.

Mr. HILER. Maybe in a couple of days.

Mr. MACK. Yes.

Mr. HILER. Ms. Hogan, do you have any comments?

Ms. HOGAN. I skipped about seven pages of testimony which all had to do with the interrelationship of international trade and tax reform, and I know Representative Hiler that you were personally present at that earlier testimony. One point we made there is that we share the other industries' concerns about doing away with ITC and ACRS and not keeping reforms that really were just instituted in 1981 which, over the long course of taxes, is a fairly recent reform. If you spoke with any of the members of our organizations, they would probably say "Stop reforming us, leave something in place long enough for us to derive some benefit from it," and that would be to go with the provisions that we now have and allow them to take effect for some period of time.

As we all well know, having them enacted in 1981, we don't see the benefits of that enactment for several years down the road, and we are just at that point right now.

Mr. HILER. If you had to pick one thing to do in the trade area, what would that be?

Mr. KIPLINGER. Passage of that H.R. 2809.

Mr. HILER. Which provisions of it do you find are the key provisions?

Mr. KIPLINGER. Taking the discretionary authority away from the President, the control of import surges, and it would be the upstream, sidestream, downstream dumping provisions.

Mr. HILER. Mr. Chairman, I yield back.

Mr. LUKEN. Mr. Kiplinger, with regard to the investment tax credit, it has been of assistance to your industry, encouraging additional investments, right?

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Mr. KIPLINGER. Yes; it has, those that have been able to invest.

Mr. LUKEN. On balance, do you think it is a subsidy that is worth keeping, as the incentive quality is to it, it has a net return to the people of this country?

Mr. KIPLINGER. We do.

Mr. LUKEN. To society, our country. Does it really serve as a downpayment to your customers? Does it work that way?

Mr. KIPLINGER. I just know there is an awful lot of concern and complaints about the possible removal of it through the tax changing process.

Mr. LUKEN. From your customers?

Mr. KIPLINGER. From our members who would invest in the equipment.

Mr. LUKEN. How about the customers of your members, that is not a factor?

Mr. KIPLINGER. I can't answer that. I don't know.

Mr. LUKEN. Mr. Mack, some have argued that American producers are losing their technological advantage over foreign products. Would you say that that would account for the loss, or could account for the losses in business? Are they related to the trade imbalance?

Mr. MACK. I would deny vigorously that we have lost our technological lead in most areas. I would argue just as vigorously that we are on the brink of doing that if imports continue unabated in many areas of our industry. When you get to a point where the other side is on your 10-yard line, it is not normally like the football game that we saw last night—a goal-line stand. What happens in business is that when the other side gets down to your 10-yard-line, you say, "Well, maybe I ought not to be playing football anymore. Maybe I ought to be playing soccer, baseball, something else." Or you try to acquire half the line, and a member of the backfield from the other side. Then it doesn't make any difference who wins. Both of those things are in the process of happening.

We are on the verge of being in a situation where we lose our technological need. When that happens, it is not just the machine tool industry that has lost that lead. What that means is that our customer base then is going to be buying day-before-yesterday's or last decade's technology from our competitors, and they are going to be keeping the most up-to-date state-of-the-art technology for themselves and for their own companies who are competing against our customer base. And so the whole process further deteriorates on down the line.

Mr. LUKEN. In that connection, I see where Houdaille went out of business.

Mr. MACK. You talked in the other panel about unfair trade practices.

Mr. LUKEN. The administration was going to give them relief unless the Prime Minister of Japan talked to the President of the United States, something like that happened.

Mr. MACK. They constructed what is probably the quintessential unfair trade practice and unfair targeting practices case. The Houdaille petition and the ancillary submissions will probably be used by doctoral thesis candidates for the next 30 years, on how the Japanese target their industries.

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There was disagreement within the administration. All of the agencies involved came up with an agreed-upon statement of facts, which were essentially Houdaille's statement of facts. Then the President turned it down at the insistence of the State Department and the Government of Japan.

What has happened since then? Houdaille has not gone out of business. What they have done is to make the decision to play soccer instead of football. They have decided to sell off their machine tool divisions and to engage in other lines of business. That is unfortunate. They are a good company. There has been a trend in the machine tool industry toward the deconglomeratization of the industry—major conglomerates, selling their machine tool divisions back to the original owners. That is probably a healthy trend when a guy has his name over the door, and he has the entrepreneurial spirit, that is a good thing.

But when companies like Houdaille decide to get out of the machine tool business, which is what they started in, that is unfortunate.

Mr. LUKEN. You testified that your association has a 232 petition pending right now?

Mr. MACK. Yes, sir, for 21 months, Thanksgiving Day, 21 months.

Mr. LUKEN. Do you think that approval of that petition would have a significant effect on the decline of our manufacturing——

Mr. MACK. It would arrest the escalating import penetration. It would enable the industry to have some breathing space so it could do the things it has to do in the United States, to assure that we have an adequate defense industrial base, an adequate machine tool industry to be able to support a mobilization.

In the absence of what we asked for in that petition, the trend toward off-sourcing is likely to continue. There will be a machine tool industry. It will look much different than the industry we have now. The people who are going to be hurt are the folks who lose their jobs in the United States. But I would submit, even more important, what will be destroyed is our ability to have an industry which can enable us to mobilize in the event of a national emergency. What will really suffer is the national security of the United States.

Mr. LUKEN. Do we ever hear anything from the administration on the defense industrial capacity? I never hear anything. Does anybody ever hear anything?

Mr. MACK. There are all kinds of reports and meetings to formulate reports. Hopefully, one of these days somebody will stop studying and reporting and do something.

Mr. LUKEN. Are there some reports that have come out?

Mr. MACK. Oh, there are interagency meetings and reports. I am talking generally about the defense base. There are conferences. They come up here and you folks beat up on them, and they promise to do better. This has been going on for years. It is not just this administration.

Mr. Skelton was talking about a report, when Dick Ichord was chairman of the panel back in 1980. I would agree with him that not much has improved.

Mr. LUKEN. Has there been a followup report since 1980?

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Mr. MACK. You mean by the Congress? No; that was by the Armed Services Committee.

Mr. LUKEN. OK, but from the Pentagon? Yes.

Mr. KIPLINGER. DOD right now is doing a study of the subcontractor base. The study is underway. Frequently the DOD will ask its prime contractors about capacity and shortages, and they did recently in the case of castings and forgings, and the prime contractor said, "No, there is no problem, we have all the capacity we need," but we suspect that capacity is overseas. We have all the suppliers we need, there is no problem.

Mr. MACK. I must say that we have found a gratifying amount of concern, not always evident in new orders, but a gratifying amount of concern on the part of prime contractors about what would happen to them if we become foreign-source dependent for machine tools. We simply cannot afford to be dependent on somebody 7,000 miles away on so basic a building block for a defense base as machine tools.

Japan is a very strong ally, but what happens if they get taken over?

Mr. LUKEN. How is that concern expressed? Concern from the administration's point?

Mr. MACK. No; I was speaking about the primes, the major defense contractors. They are very concerned about what is happening to the machine tool industry in the United States.

Mr. LUKEN. OK.

Mr. MACK. Mr. Chairman, unlike most trade petitions that get filed, where you have a fairly substantial domestic lobby, if you will, in opposition, that did not occur in the case of the machine tool 232 case. To my knowledge, there was no big organized lobby against it by domestic companies. The Japanese machine tool builders were over here, and other foreign groups. But the customer base was not beating on the door of the administration saying "Don't do this." That is why it is a little curious to us as to why this has taken so long.

Mr. LUKEN. All right. I think that is as much as we can do on the subject in the time allotted.

Your testimony has been very helpful, so we thank you very much, and we will go on to the next panel.

The next panel is Mr. Mike Bottom, president of J.T. Bottom.

Mr. SKELTON [presiding]. Please proceed.

TESTIMONY OF MICHAEL T. BOTTOM, PRESIDENT, BOTTOM INDUSTRIES, INC., CUBA, MO

Mr. BOTTOM. Thank you for the opportunity to be here this morning and to testify before your subcommittees.

The area of imports, exports in international trade is a fairly new area to me, so my testimony probably won't be very enlightening in a lot of ways. But I think the only way I can do it is to present my own problem, and I do not represent only myself, but I think I represent thousands of companies across this United States, which are having the same problem.

We introduced a new product in 1984, and I am speaking of a new product, fabric awning. The unique feature of this product is

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the fabric itself. It is a PVC-coated yarn which is woven into a fabric which will outlast traditional awning fabric. Up until recently, this type of fabric was used mostly for casual outdoor furniture and umbrellas. Our main market channel is the hardware and home center trade. This is a new concept in the marketing of window awnings.

In March 1984, T.J. Bottom Industries, introduced this product at the National Home Center Show. We were there to see if perhaps there would be a market for long-lasting, high-quality, do-it-yourself window awning, a product which is decorative and cost effective as an energy saver.

The response was very positive. We then decided to go into production. We invested $500,000 in product development, market development, equipment, advertising and promotion, employee training, building lease, and so forth. A loan for $400,000 was secured from our local bank with the SBA guarantee.

In August 1984, we attended the National Hardware Show in Chicago. This is the largest show of its kind. At the show we received orders and verbal commitments totaling well over $1 million in sales for delivery during 1985.

During the show some Taiwanese people came into our display booth and asked many questions. They asked lots of questions, and I was very helpful to them. They came back and started taking pictures and asked for samples, et cetera, et cetera. I obliged them very much, and about 4 months later in another trade show in the West, they introduced this product on the market, and not only did they introduce it, but everything exactly was like ours. I am talking about the packaging, the instruction sheet, the construction, even the part numbers. The only difference was in price, and they were about one-third of our price.

The result of that was all our investment, about one-half of a million dollars, and everything else instantly went down the tubes, and it put us out of business before we even got started.

We are a very, very small company from a very, very small town, and we employed 15 people.

Mr. SKELTON. Are patents involved here?

Mr. BOTTOM. We have applied for patents, and it takes several months, 1 year, 1½ years to receive the patents. And by the time they are reviewed, their attitude has been, even after we have written them letters, it will take so long, but by that time we will be out of business, and they are not even concerned with that.

My feeling is, and I will address this in a little bit, that not only patents, a person should be protected because of patents, but also because of what I consider counterfeiting. I know that there are several products on the market today that may not be patentable, but a company might spend hundreds of thousands of dollars in developing something and have somebody come over and copy it without any investment at all is one of the problems.

I believe in fair trade, like everybody else, I mean in free trade, but it needs to be fair trade, but I don't think that is what is happening here. We compete and go by the rules of this country as far as all the expenses involved, to get a business started, and unemployment compensation taxes, health insurance, and Government taxes and everything else, and try and play by the rules.

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Somebody in a foreign company can come in here, copy something and instead of—I am sure they don't have the same costs that we do and in no time at all, they run everybody out of business, and I am sure that at some point in the manufacture of this product, there are some subsidies that they are being granted over there that we don't have over here, and the result is, they compete at a price we cannot even come close to, and it is not just our product. This is happening in hundreds of thousands of products all over the United States.

I have seen that, and since I have been trying to do something about it, I met people at various trade shows, and they say "Forget it, there is nothing you can do." They laugh about it and say, "Don't even try to fight it, you will be a loser." I have no choice. I am going to try to fight it for myself and for other people, because it is not fair trade at all. We have used sheltered workshop people. We have had 25 people contract with a shop in a town near us, and we have had to cancel the contract with them, so there are 25 handicapped workers that no longer have employment because of what has happened here.

Counterfeiting or copying should just not be able to be done, at least until a manufacturer or inventor or innovator can get his investment back. They should be protected just like a person with a patent.

We go over here and put the foreign competition in business. We set them up. We develop the market, develop the product, go to a trade show, open our doors, they come in and take pictures and the next thing you know, they are in business with 20-cent-an-hour people, and we can't compete that way. So what incentive does a person have, either a large or small business, to develop markets and new products? We can't compete with them. One of my recommendations would be maybe some kind of a counterfeiting bill.

Mr. SKELTON. There is legislation pending dealing with that, I believe, Congressman Guarini from the Ways and Means Committee has legislation touching on that. I do appreciate your situation. I know there are some talks also going on with other countries, especially Taiwan, dealing with counterfeiting.

Mr. Hiler.

Mr. HILER. I thank the gentleman.

How long were you in the development stage on this product?

Mr. BOTTOM. Not very long. It is not a very difficult product to manufacture, but I would say 6 months, the development of the product itself, and the development of the market, and the avenue we were going to market the product in, packaging in, setting up a sales organization, that type of thing.

Mr. HILER. So that it is a product that all it took for the Taiwanese was to come in and take the snapshots and basically copy your design and your innovation, and all within a couple of months?

Mr. BOTTOM. Exactly. They had it 3 months.

Mr. HILER. Is your business capital intensive?

Mr. BOTTOM. Not really. We were in business with another product, and if a person started in from scratch, it would be capital intensive, but not necessarily, Mr. Hiler.

I was surprised that it is not really labor intensive either. We are sort of surprised, everybody said, "Well, since it is not labor inten-

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sive, they might not bother with it, particularly a new item, until the market was established," but being a fabric that they were already using in another field, these people are not in the awning business like we are, they are in the textile business, they took the same textile, had a frame made for it, packaged it like we did, and entered the market like we did immediately.

Mr. SKELTON. Where do you get your textiles?

Mr. BOTTOM. From a source down in Alabama, domestic.

Mr. SKELTON. Good. Counsel, do you have any questions or comments?

Thank you very much, Mr. Bottom. I appreciate the witnesses who have testified today, and taking the time to come to Washington. It has been very helpful and very informative. We hope that your testimony will assist not just these two subcommittees but the entire Committee on Small Business, and consequently the entire Congress as a result.

[Mr. Bottom's prepared statement, with attachments, follows:]

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Prepared Statement of Michael T. Bottom, President, Bottom Industries, Inc., Cuba, MO

Our company, T.J. Bottom Industries, has a very critical situation with regards to a competative product, imported from Taiwan. This product was the sole innovation of our company and has been copied by the Taiwanese.

The product we are speaking of is a fabric awning. The unique feature of this product is the fabric itself. It is a PVC coated yarn which is woven into a fabric which will outlast traditional awning fabric. Up until recently, this type of fabric was used mostly for casual outdoor furniture and umbrellas. Our main market channel is the hardware and home center trade. This is a new concept in the marketing of window awnings.

In March 1984, T.J. Bottom Ind., introduced this product at the National Home Center Show. We were there to see if perhaps there would be a market for a long lasting, high quality, do-it-yourself window awning. A product which is decorative, and cost effective as an energy saver.

The response was very positive. We then decided to go into production. We invested $500,000.00 in product development, market development, equipment, advertising, and promotion, employee training, building lease, etc... A loan for $400,000.00 was secured from our local bank with a S.B.A. guarantee.

In August of 1984, we attended the National Hardware Show in Chicago. This is the largest show of its kind. At the show we received orders and verbal commitments totaling well over a million dollars in sales, for delivery during 1985.

During the show some Taiwanese people came into our display booth and asked many questions. Shortly after, they returned with cameras and took pictures of our product. I didn't think much about this at the time. However, a few months later, at the Western Hardware Show, they introduced a similar product. Not only did they introduce the product, they copied ours to the letter. They had the same sizes, their package was the same, they used a point of purchase display just like ours, and their instructions were exactly the same. Even part numbers were the same. Everything copied to the letter, except price. They are, in some cases, one third our price! See the enclosed document which is a quotation to Cotter and Company. The resulting price difference has done the following: Most of our customers commitments were cancelled.

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Instead of expected sales well over $1,000,000.00, we sold approximately $500,000.00.

Most of our existing customers are now threatening to buy the Taiwanese product. The Taiwanese are now courting some of our sales representatives, telling them they had better start selling their product, because due to the price difference, we will be out of business. In short, this imported product, selling at this ridiculous price will soon put our company out of business. If we were given raw material free, we still could not compete at their level.

We strongly feel, these people are guilty of unfair trade practices. We have applied for patents, both for our product construction and the unique packaging. However, by the time these patents are reviewed and may be issued, it will be too late, and we will be out of business. We feel we have the right to be protected from a foreign source coming to a trade show and with no other investment than a few pictures, stealing our ideas and our business. What sense is there to invest everything one owns in an idea and product, only to have it stolen by someone with cheap labor. What right do the Taiwanese have to steal products and cost our employees their jobs? Most of these jobs were given to people who had previously lost jobs in the shoe industry in Cuba, because of foreign competition. Cuba has just been selected as an enterprise zone, because of low employment, what Cuba doesn't need is fifteen to twenty additional people on the unemployment roles. In addition we had an agreement with a local sheltered workshop to do our quality controlled inspecting, assemblying, and packaging of our product. The workshop uses all handicapped employees. They had 20 to 25 people involved in our work. We have since stopped using this workshop due to lack of sales. Therefore, 20 to 25 handicapped workers are now without employment.

I believe in free trade, but that free trade must be <u>fair</u> trade. There should be some way to insure that when we compete, the rules are the same. I understand that some of the labor used in Taiwan is paid less than $.20 per hour, if we paid only minimum wage ($3.35) that is about 17 times more than the Taiwanese worker is paid. What about the other overhead costs we must contend with? Unemployment compensation, Social Security taxes, product liability insurance, Federal, State, and local taxes, health insurance, vacation benefits, and all other governmental regulations which must be adhered to and adds to overhead costs. Do the Taiwanese have any of these costly items to add to their costs? To the contrary, in some cases there are government subsidiaries, so they can export to the United States for ridiculous low prices.

I know our company is only one of thousands who are currently facing this problem. I know it is difficult to solve and still maintain free trade. However, if not curbed in some manner, thousands of additional companies, like ours, will be forced out of business, along with the loss of millions of jobs.

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I would recommend protection against counterfeiting. There are many products on the market which may not be patentable, but have new ideas and concepts which cost thousands of dollars to the developer. The innovator has the right to be protected just as does the person holding a patent. There needs to be protection at the market place. At least until the time the innovator can receive his investment back. Why should I or anyone else have an idea, invest hundreds of thousands of dollars, only to put a foreign company in business and lose it all. There should be a system where these new products can be registered and protected from foreign competition for 3 to 5 years.

Perhaps duties or tarriffs should be levied to more adequately reflect our cost of doing business. In other words, let foreign competition compete at near the same level. Let quality, variety, service, delivery, and promotional ideas be more a factor in buying decisions than just price. When pricing is so inequitable there is no way, we in this country, can compete.

In our case, we feel the Taiwanese are "dumping" this product on the American market. I understand we can file a petition with the International Trade Commission and the U.S. Department of Commerce to try and get some relief under section 337 of the Tarriff Act 1930. However, I have been told, this can be very expensive, $25,000.00 to $250,000.00. Also, I understand, the results are usually disappointing, with little or no relief. A small business simply cannot afford this. Perhaps a program available to small businesses in the form of legal aid. The small businessman needs both a place to get legal counseling and perhaps monetary aid for legal fees to fight unfair competition.

We seek your help and advice on how to deal with this. We need to know who to contact and what additional information might be needed in order to fight this.

Enclosed is some literature and other supportive documents dealing with this problem. We will supply any additional material needed which might help this case. I will personally meet with anyone, anywhere, anytime who might be helpful to our cause.

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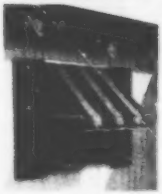
RAINBO

made of TILENE SUNSURE

DO NOT DESTROY - ASSEMBLY INSTRUCTIONS ON REVERSE SIDE



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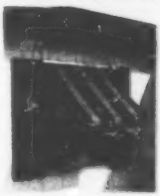

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DO NOT DESTROY - ASSEMBLY INSTRUCTIONS ON REVERSE SIDE

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RAINBO Awnings
made of TEXTILENE SUNSURE

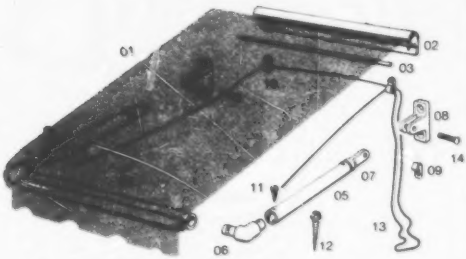
RAINBO Awnings are specifically designed for the "do-it-yourselfer". All components are made of the highest quality, non-corroding materials available.

ASSEMBLY INSTRUCTIONS

Read these instructions carefully before assembling this awning! After a brief "read-thru"...and with a little patience...your RAINBO Awning will be in place quickly and easily!

TOOLS YOU'LL NEED

Tape measure, screwdriver, pliers and carpenter's level. If the awning is being attached to brick or masonry, additional tools and fasteners may be required.



RAINBO AWNING PARTS LIST

Part No.	Qty. Req.	Description
01	1	Awning Fabric (referred to as "curtain" at times in instructions)
02	1	Aluminum Mounting Strip
03	2	Plastic Tubing
04	1	Aluminum Front Cross Tube
05	2	Aluminum Return Arms
06	2	Plastic Elbows (for joining cross arm to return arms.)
07	2	Plastic Eye-Ends (for securing return arms to wall hinges.)
08	2	Plastic Wall Hinges
09	1	Plastic Rope Cleat
10	2	Plastic Rope Guides
11	3	¾" Screws
12	8	1" Metal Mounting Screws (for securing mounting strip, wall hinges and rope cleat to exterior wall)
13	1	Rope
14	2	Metal ¼" Bolts (for securing eye-ends to wall hinges.)

The parts are diagramed and numbered for easy reference per the accompanying Assembly Instruction details.

Follow these simple step-by-step instructions for installation of your RAINBO Awning. (Refer to drawing for further ease of assembly!)

If you desire more weight to the front of the awning, the *front cross tube* may be filled with sand.

1. Attach *mounting strip* (#2) above window using *1" mounting screws* (#12). *Rope guides* (#10) should be placed over mounting screw holes on the outside left and right, and, then, 1" mounting screws should be used to fasten mounting strip and rope guides into place.
2. Slide *plastic tubing* (#3) into top (upper) stitched pocket of awning curtain (#1).
3. Slide *curtain with tubing* into *mounting strip* (at this point, *mounting strip* should be attached to exterior wall).
4. Insert *plastic elbows* (#6) into each end of front cross tube. Fasten elbows with *5/8" screws* (#11).
5. Set *return arms* (#5) into plastic elbows and fasten with *5/8" screws* (#11).
6. Insert *plastic "eye-ends"* (#7) into "return arms" and fasten with *5/8" screws* (#11).
7. Affix *wall hinge* (#8) to "eye-ends" (#7) using 3/4" bolts (#14).
8. Place *return arms* against wall in level position. Secure *wall hinges* using *1" screws* (#12). (If attaching to brick or masonry surface, different fasteners will be required.) On most windows the *return arms* and *wall hinges* should be in position half-way down the window.

NOTE: If awning is too big for window, the fabric may be shortened easily as follows:

A) Determine how much curtain should be shortened.
B) Slide curtain from top *mounting strip*.
C) Remove *plastic tubing* from top curtain pocket.
D) Place *plastic tubing* under curtain and down from pocket to the length curtain must be shortened.
E) Fold curtain around tubing, keeping the curtain straight and even.
F) Slide curtain and tubing into *mounting strip* channel. *Plastic tubing* and curtain will stay in place without stitching. Excess curtain material may be trimmed if desired.
G) *Return arms* may now be too long. If so, ends may be cut and new holes drilled.

9. Once awning is satisfactorily attached, thread the *rope* (#13) into *rope guide* (#10) on right side. Continue *rope* across and through *rope guide* at left. Pull *rope* forward and tie around "slot" between *elbow* and *front cross tube* on left side. Cut off excess *rope* which hangs below right side *wall hinge*. Now thread the excess *rope* length through right side *rope guide*. Pull *rope* forward and tie around "slot" between *elbow* and *front cross tube* on right side. Tie loose rope ends together.
10. Pull rope downward until awning is fully raised. Determine position for *rope cleat* (#9) and attach with *1" screw*. Rope will hook to cleat and awning will remain in raised position.

You're Finished!

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HERE'S HOW TO MEASURE YOUR WINDOW FOR A PERFECT FIT!

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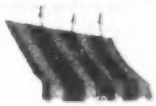
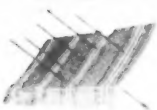
The Finishing Touch in Outdoor Home Improvements
RAINBO
Windows & Door Treatments
made of
Top Quality at an Affordable Price!

RAINBO Awnings TILENE SURE

RAINBO Door Canopies



RAINBO Curtains



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ARTHUR L. MALLORY
Commissioner

Area Code 314
751-3547

State of Missouri
DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
P.O. BOX 480
JEFFERSON CITY, MISSOURI 65102

October 29, 1985

Honorable Ike Skelton
House of Representatives
2453 Rayburn Building
Washington, D.C. 20515

Dear Congressman:

The Rolla Area Sheltered Workshop has had a very fine subcontract making awnings for T.J. Bottom Industries located in Cuba, Missouri. Recently that contract was lost because Bottom Industries was severely under priced by a firm from Taiwan.

At a trade show in Kansas City a couple of years ago, it is alleged a Taiwanese came by Bottom Industries' display booth and took pictures. Within a year they were producing and exporting to the United States an almost identical product at a fraction of the cost of the awnings made and sold by Bottom Industries.

Recently I read in a business magazine that the Japanese were prohibiting the Taiwanese from attending the trade shows held in Japan because of this same problem. Perhaps, the United States would be wise to consider some similar action.

Not only did the Rolla Area Sheltered Workshop lose employment for 20 handicapped people, but Bottom Industries has lost more than seventy-five percent of their volume of business. In a rural setting such as Cuba and Rolla, this is a great loss to the economy and the employment of people. This is a certain death knell to a new struggling enterprise such as Bottom Industries which has invested heavily in start up equipment, etc.

This general pattern is becoming more frequent across Missouri. It is this kind of unfair trade practices that will result in more unemployment of the handicapped workers as well as the general labor force of Missouri. The end result will be a larger burden on the state and federal governments to support the displaced employees.

Since this is a current subject being addressed in Congress, I thought this might be of interest to you.

Sincerely,

Otis E. Thompson

Otis E. Thompson, Director
Extended Employment Sheltered Workshops

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[redacted]®

TAIWAN SHERMAN CORP.

HEAD OFFICE: NO. 136, HU PEI ST., TAICHUNG, TAIWAN, R.O.C. TEL: (042) 237440
TAIPEI OFFICE: 2ND. FL. NO. 7, ALLEY 138, LANE 285, SECTION 1 NEI HU RD., TAIPEI.
P.O. BOX 91-443, TAIPEI, TAIWAN. TEL: (02) 7979251, 7979361
FACTORY: NO. 30, LANE 388, SECTION 2, CHUNGSHAN ROAD, TAIPING, TAICHUNG HSIEN.
CABLE: "SHERMAN" TAICHUNG, CABLE: "REYNOLD" TAIPEI
EXPORTER & MANUFACTURER TELEX: 20835 REYNOLD

TAIWAN SHERMAN CORP. P.O. BOX 91-443, TAIPEI.

Decor® Awning

COTTER & CO.
2740 Clybourn
Chicago, IL 60614
U. S. A.

O/REF:SHERMAN/COTTER & CO. DATE: May 14, 1985
Y/REF: DATE:

Attn.: The purchasing Manager

Dear Sirs,

Enclosed please find a catalogue of our latest innovation - The DECOR-AWNING. (Registering in R.O.C., KOREA)

The DECOR-AWNING is innovative both in their functions and appearance, replacing the previous awnings which is costly and difficult to install. With simple installation procedures, requiring merely a screw driver, it is ready to be put on for sun-shield and decorative purpose. The DECOR-AWNING does not obstruct sun-light completely but is rather a see-through structure for sun-proof and energy saving. Further more, there are complete color swatches, adding beauty to the modern homes.

General specifications:

Size:
There are four (4) sizes - for window of 3', 4', 5' and 6'. The awnings can be cut or trimmed to exact size by consumer.

Colors:
There are four (4) colors - a. yellow/white stripes.
b. blue/white stripes.
c. green rainbow.
d. brown rainbow.
(The fabric of awnings is Texlene)

Prices:
3'-US$5.60/set. 4'-US$6.40/set. 5'-US$8.25/set. 6'-US$9.60/set.

Packing:
3' - 16sets/ctn/2.3cuft. 4' - 16sets/ctn/3.4cuft.
5' - 8sets/ctn/1.96cuft. 6' - 8sets/ctn/2.4cuft.

Awning display rack:
Free standing, K/D, assembly by stainless steel tube & zinc alloy joint, exhibited small awning 16"x25", dimension of display rack 16"x24"x63", each rack has 24 slots to display 24sets DECOR-AWNING. (The wood display rack is available by customer's request.)

- to be continued -

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TAIWAN SHERMAN CORP.

HEAD OFFICE: NO. 138, HU PEI ST., TAICHUNG, TAIWAN, R.O.C. TEL: (042) 237440
TAIPEI OFFICE: 2ND. FL. NO. 7, ALLEY 138, LANE 285, SECTION 1 NEI HU RD., TAIPEI.
P.O. BOX 91-443, TAIPEI, TAIWAN. TEL: (02) 7979251, 7979561
FACTORY: NO. 30, LANE 388, SECTION 2, CHUNGSHAN ROAD, TAIPING, TAICHUNG HSIEN,
CABLE: "SHERMAN" TAICHUNG, CABLE: "REYNOLD" TAIPEI
EXPORTER & MANUFACTURER. TELEX: 20836 REYNOLD

TAIWAN SHERMAN CORP. P.O. BOX 91-443, TAIPEI.

Decor Awning®

COTTER & CO.
Chicago, IL 60614, U.S.A.

O/REF: SHERMAN/COTTER & CO. DATE:
Y/REF: DATE:

You may through your bank to credit our financial ability and business operation status. Our bank details as follows:
THE INTERNATIONAL COMMERCIAL BANK OF CHINA
Head Office - Foreign Department
No. 100, Chi Lin road, Taipei, Taiwan, R. O. C.

We trust that this is going to be a very prospective item in 1985-1986. Please look into this matter very carefully and let us know whether you are interested.

Assuring you our best cooperation at all times, with best regards.

Sincerely yours,
TAIWAN SHERMAN CORPORATION

Reynold [redacted] - Gen. Manager

RE:kc

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101

Decor Awning®

FOR BETTER LOOKING, MORE PRACTICAL WINDOWS
- BEAUTY • SUN-SHIELD • ENERGY SAVER
- D.I.Y. • COMPLETE COLOR SWATCHES
- SIZE FOR 3', 4', 5', & 6' WINDOWS

DOUBLE WARPING, DURABLI
AND BETTER STRENGTH

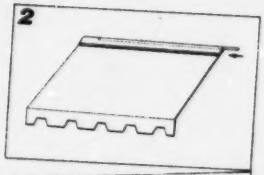
DO NOT DESTROY—ASSEMBLY INSTRUCTIONS ON REVERSE SIDE

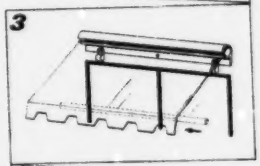
101

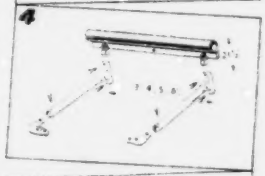
Decor Awning®

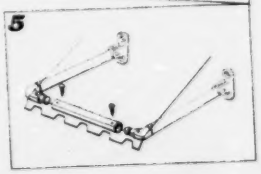
ASSEMBLY INSTRUCTIONS

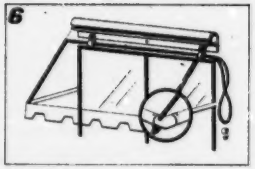
1. Attach mounting strip (#02) above window, using 7/8" screws (#11). Screw rope guides (#07) to mounting strip side holes.
2. Slide plastic tubing (#03) into upper stitched "pocket" of curtain (#01).
3. Slide curtain with tubing into mounting strip (#02). Insert front tube (#04) into lower stitched "pocket" of curtain.
4. Insert plastic elbows (#06) into open ends of side bars (#05) and affix with ½" screws (#10). Secure side bars to wall with 7/8" screws (#11). (Suggested distance between wall hinge and mounting strip is 21⅜".)
5. Insert plastic elbows (#06) into front tube (#04) and fasten with ½" screws (#10). (See also NOTE: B)
6. Insert rope (#09) into rope guides (#07) and tie around holes at plastic elbows (#06). Pull rope to lift awning. Set position for rope cleat (#08).











PARTS LIST

PART NO.	QTY	DESCRIPTION
01	1	Curtain
02	1	Mounting Strip
03	1	Plastic Tubing
04	1	Front Tube
05	2	Side Bars
06	2	Plastic Elbows
07	2	Rope Guides
08	1	Rope Cleat
09	1	Rope
10	4	½" Screws
11	8-for 3', 4' awning 9-for 5', 6' awning	7/8" Screws "

NOTE:

A. The curtain may be shortened as follows:
   1. Slide curtain out of mounting strip and remove plastic tubing from "pocket".
   2. Determine length of curtain to be shortened.
   3. Fold curtain around tubing at ideal length and slide into mounting strip.
   4. Trim excess curtain.

B. If you desire more weight to the awning, the front tube may be filled with sand.

AMSIA INTERNATIONAL CORP
11823 E. SLAUSON AVE., #27.
SANTA FE SPRINGS, CA 90670
TEL: (213)6989618
TLX: 3720097 AMSIA

MADE IN TAIWAN

102

102

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Mr. SKELTON. Without further ado, I then thank all of you, and the hearing is adjourned.

[Whereupon, at 12:20 p.m., the subcommittees adjourned, to reconvene subject to call of the Chair.]

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APPENDIX

Additional Responses of Walter M. Kiplinger, Jr., Vice President, Government Affairs, Cast Metals Federation, and Secretary, Metalworking Fair Trade Coalition

CAST METALS FEDERATION SUITE 403, 918 16TH STREET, N.W. • WASHINGTON, D.C. 20006 (202) 833-1319

WALTER M. KIPLINGER, JR.
Vice President - Government Affairs

November 20, 1985

The Honorable Ike Skelton
2453 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Again, many thanks for including the Metalworking Fair Trade Coalition, among witness organizations during yesterday's joint subcommittee hearings on the impact of imports and tax proposals to small business.

During the question period, you asked about the government's ability to measure the capacity of defense subcontractors.

The enclosed copy of an article from a trade paper -- the American Metal Market -- describes one such effort by the Pentagon.

Another effort is being started by the Federal Emergency Management Agency. When I learn details of that one I'll be back to you.

Sincerely,

Walter M. Kiplinger, Jr.

copies to: Larry Sabbath
Russ Orban

enclosure
WMK:lpb

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AMERICAN METAL MARKET/METALWORKING NEWS, OCTOBER 14, 1985

Pentagon Plans Subcontract Data Base

By ROSANNE BROOKS

WASHINGTON—The Pentagon plans sometime this fiscal year to start up a data base that tracks the capacity and health of its subcontractor supply network, one of its chief industrial base planners said last week.

The new information base will serve as a complement to the Defense Economic Impact Modeling System (Deims) military officials now use to project their manufacturing sector needs from budget projections, Richard E. Donnelly, director of industrial resources, explained.

"Now we're able to say where the business will go in the economy if we spend, say, $1 million on a tactical missile system," he said. "What we don't have is good visibility on the supply side. We don't know how many suppliers we have, or what their capacity is."

That ability will be vital in several tasks, he added: contracting strategy, competition enhancement, defense production base analysis and mobilization efforts.

It also will give defense officials something to use when they are asked to analyze their needs for particular products in connection with industry pleas for import protection. "With the increase in activity (in protectionist legislation) that is sure to come, it would be nice for us to have that ability," Donnelly asserted.

The Pentagon will pull the information going into the new distributed, standardized, automated data base from existing sources as well as through new questionnaires to suppliers.

"We already have 6,000 planned emergency producers that we survey yearly. It's just a matter of capturing that information," Donnelly said. Census Bureau statistics on defense producers, as well as information

(Continued on page 15)

Pentagon to Start Supply Data Base

(Continued from page 4)

from such private sources as Dun & Bradstreet and Standard & Poors will be used as well.

"There is an immense amount of information out there, but sources on the manufacturing bases are either nonexistent or fragmented. What we need is a method to capture it and make it useful to our industrial planners," he added.

Pentagon staffers have done initial worksups of the hardware they will need to start up the data base, taking into consideration the types of functions they will require from it at first and the specific needs of Defense Department users. The next step, according to Donnelly, is to decide how much information to include in the new system's early operations.

"Like any other data base, we have a long list of things we'd like to know. The big problem comes in deciding how much to go after," he said.

Donnelly would not predict when the new data base will go on line, saying the start-up hinges on when top Pentagon officials decide how much money to allocate for it and when the choices are made on what form its first functions will take.

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(202) 833-1310

WALTER M. KIPLINGER, JR.
Vice President - Government Affairs

November 22, 1985

The Honorable Ike Skelton
2453 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Another follow-up to a question you raised during the November 19 subcommittee hearing on the impact of imports and tax reform:

You asked how repeal of the investment tax credit would effect foundry customers (or castings users).

If the customer is profitable, repeal of the investment tax credit would raise the cost of the castings. If the customer is not profitable and does not have a tax liability the credit means nothing.

The U.S. Chamber of Commerce estimates that the new depreciation system and the repeal of the investment tax credit could raise the cost of capital equipment purchases by as much as 20 percent.

This could be a moot point in view of the Ways and Means Committee's action on November 20 to end the credit.

Sincerely,

Walter M. Kiplinger, Jr.

copies to: Larry Sabbath
Russ Orban

WMK:lpb

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